

**MICHIGAN
DEPARTMENT OF TREASURY**



**2005
TAXPAYER ASSISTANCE MANUAL**

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JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 2, 2005

Taxpayer Assistance Volunteers:

Thank you for volunteering your time and effort to this tax assistance program. Your primary function will be to assist taxpayers in preparing their Michigan income tax and credit forms. Specifically, you will be assisting in the preparation of income tax returns and homestead property tax credit and home heating credit forms. Returns and/or claim forms will be prepared from documentation furnished by the taxpayer and information obtained from discussions with taxpayer(s). These step-by-step preparations and techniques will be discussed later in this Taxpayer Assistance Manual.

Please remember that any information you acquire about a specific taxpayer, or group of taxpayers, is confidential. Do not discuss this information with anyone except the specific taxpayer(s) or Treasury personnel.

Your provision of this important service is more critical than ever. If you have any questions, please contact Robert Kelava, Volunteer Programs Coordinator, at (313) 456-4274, or call our volunteer help line at 1-888-860-8389.

Again, thank you for the valuable service you provide to the citizens of Michigan.

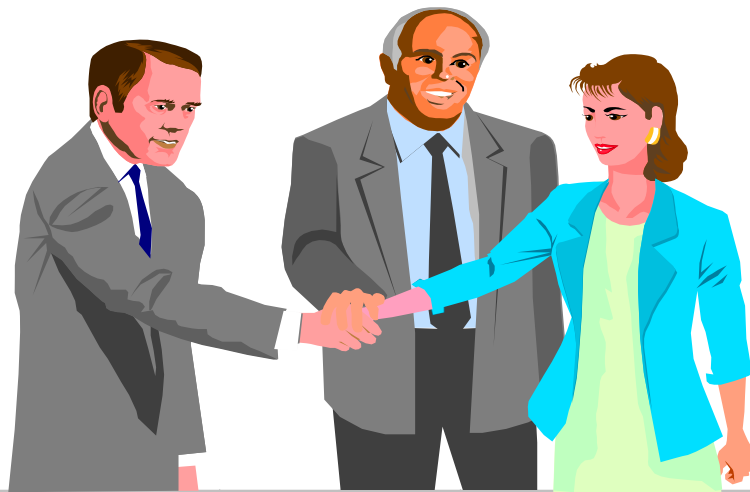
Sincerely,

A handwritten signature in black ink, appearing to read "Jay B. Rising".

Jay B. Rising
State Treasurer

CHAPTER 1

INTRODUCTION



CHAPTER 1 INTRODUCTION

The Taxpayer Assistance Manual is a guide to completing the following Michigan income tax forms:

- MI-1040 MICHIGAN INDIVIDUAL INCOME TAX RETURN
- MI-1040CR HOMESTEAD PROPERTY TAX CREDIT CLAIM
- MI-1040CR-2 HOMESTEAD PROPERTY TAX CREDIT CLAIM FOR
VETERANS AND BLIND PEOPLE
- MI-1040CR-7 HOME HEATING CREDIT CLAIM

This Manual does not supersede the Income Tax Act of 1967 or the Revenue Act of 1941, both as amended.

This Manual is provided as a useful tool to assist you when you are preparing a return. It covers most situations for most taxpayers. If a taxpayer's circumstance is unusual or you are unsure how to apply these instructions, call Robert Kelava at the Michigan Department of Treasury at (313) 456-4274, or toll free 1-888-860-8389.



GENERAL GUIDELINES

LABELS

Encourage the taxpayer to give you the booklet he/she received from Treasury. If the “peel-off” label (used by Treasury to send the booklet to the taxpayer) is accurate, peel it off and affix it to the return. When using the label be sure to write the taxpayer’s social security number on the appropriate line. If there are **any** errors on the label, do **not** use it. Instead, clearly print the taxpayer’s name, address and social security number on the return. Do not use the label if taxpayer is a surviving spouse and the deceased taxpayer’s name is on the label.

COPY OF RETURN

Prepare all returns in duplicate. File the original return and give the copy to the taxpayer. Inform the taxpayer that it is important to keep a copy of the return. If there are problems regarding the tax return, the taxpayer will be able to refer to the copy to see exactly what was entered on the return. Advise the taxpayer to bring the copy the following year to expedite preparation.

SIGNATURES

After you have prepared the return, write your site designation and the date prepared in preparer’s signature area. Then have the taxpayer (and spouse, if applicable) sign and date the return.

RELEASE TO DISCUSS INFORMATION

Ask the taxpayer if he/she wants to authorize personnel in the Department of Treasury to discuss the return with the preparer if additional information is needed. Have the taxpayer check the appropriate box.

ARRANGING AND MAILING RETURNS AND ATTACHMENTS

Each form contains a two-digit attachment sequence number in the upper-right corner to guide in the proper assembly of the MI-1040 and related schedules.

Do not staple the MI-1040CR-7 to the other returns. Fold it and leave it loose in the envelope.

Mail to address shown on return.

DECEASED TAXPAYER

If a deceased taxpayer has a surviving spouse, use both surviving spouse's and deceased spouse's names and social security numbers. Write "DECD" after the deceased's name. Include all income (including the deceased spouse's) on the return. A full exemption allowance is allowed for the deceased.

If there is no surviving spouse and you are preparing a return for the personal representative or claimant filing single or joint returns for deceased taxpayer(s), you must attach a copy of the U.S. 1310 or MI-1310 (Michigan Claim for Refund Due a Deceased Taxpayer). Enter the deceased person's name(s) in filer and spouse name fields as indicated and the representative/claimant name(s), title and address in the home address field.

For examples see the chart on page 43 of the Michigan 1040 Instruction booklet.

COMPLETING A PAPER-FILED RETURN

The Michigan Department of Treasury uses scanning equipment to capture the information from paper income tax returns. To avoid unnecessary delays caused by manual processing, follow the guidelines below so that returns are processed quickly and accurately.

- **Use black or blue ink.** Do not use pencil, red ink or felt tip pens. Do not highlight information.
- **Print using capital letters (UPPER CASE):** Capital letters are easier to recognize.
- **Print numbers like this:** 0 / 2 3 4 5 6 7 8 9. Do not put a slash through the zero or seven.
- **Leave lines/boxes blank** if they do not apply or if the amount is zero.
- **Do not write extra numbers, symbols or notes** on the return, such as cents, dashes, decimal points or dollar signs. Enclose any explanations on a separate sheet unless instructed to write explanations on the return.
- **Stay within the lines** when entering information in boxes.
- **Use whole dollars.** Round down amounts less than 50 cents. Round up amounts of 50 cents through 99 cents. Do not enter cents (e.g., 129.49 becomes 129, 129.50 becomes 130).

NEW FOR 2005

NEW LEGISLATION

Nonrefundable Credit to Donors of Automobiles to a Certified Charitable Organization

Donors may claim a nonrefundable tax credit for the donation of an automobile to a charitable organization, if the automobile is transferred to an individual for employment purposes.

Donors must receive form 4284 DONOR TAX CREDIT CERTIFICATE FOR DONATED AUTOMOBILE from a certified charitable organization to claim the credit.

The tax credit is equal to 50% of the lesser of the fair market value of the automobile as determined by the charitable organization or the National Automobile Dealers Association (NADA) guidebook, up to \$50 for a return filed by a single person or \$100 for a joint return.

A Michigan Income tax credit is not available to donors who give motor vehicles to a church or house of religious worship, even if the vehicle is intended for use by a qualified recipient.

The following charitable organizations have qualified for the vehicle donation program for 2005. (The Credit Eligibility Number is also listed.)

Good Samaritan Ministry (Holland)	604
Goodwill Industries of Greater Detroit	406
Goodwill Industries of Mid-Michigan, Inc.	105
Goodwill Industries of West Michigan, Inc.	803
Goodwill Industries of Southwestern Michigan, Inc.	601
Goodwill Wheels to Work	202

Although the certificate need not be attached, the three-digit code number must be entered whether the Michigan Income Tax return is e-filed or paper-filed. The taxpayer must save the certificate as proof if verification is later requested by the Michigan Department of Treasury.

Voluntary Contribution for Children's Trust Fund

Michigan income taxpayers can voluntarily contribute \$5 or more to the Children's Trust Fund. Contributions are a key source of funding for child abuse/neglect prevention in local communities.

Changes to the Income Tax Forms

The following changes were made to form MI-1040CR HOMESTEAD PROPERTY TAX CREDIT CLAIM: (1) The Residency Status was moved from page 1 to the top of page 2 and (2) "The Alternate Credit computation for renters age 65 and older" was moved from the form to page 22 in the Instruction Booklet.

2-D BARCODING

Treasury will again accept 2-D barcodes for the MI-1040 Income Tax Return and MI-1040CR-7 Home Heating Credit Claim for the year 2005. Treasury will also continue to scan 2-D barcodes on prior year returns back to tax year 2000.

The 2-D barcode no longer prints directly on the MI-1040 and MI-1040CR-7 forms. Instead, a separate barcode datasheet will be created. The datasheet is created when the taxpayer's return includes the MI-1040 and/or MI-1040CR-7 and barcoding is supported by the software vendor. The taxpayer name and address on the barcode datasheet must replicate the data provided on the MI-1040 and/or MI-1040CR-7. Make sure that the datasheet is attached to the **front** of the return(s).

SUMMARY OF NEW FIGURES FOR 2005

Tax Rate	3.9%	
Personal Exemption	\$ 3,200	
Special Exemption	\$ 2,000	
Child Care Deduction	\$ 600	
Non-Government Pension Deduction Limits	\$39,570	Single, \$ 79,140 Joint
Senior Citizen Interest, Dividend and Capital Gain Deduction Limits	\$ 8,828	Single, \$ 17,655 Joint

CUSTOMER SELF-SERVICE

Taxpayers and authorized representatives can now check on the status of tax returns, get a summary of estimated payments or ask a question about tax accounts using the Michigan Department of Treasury convenient Customer Self-Service options. Taxpayers and authorized representatives are encouraged to use these new channels to get information quickly and efficiently. For individual income tax information call toll free 1-800-827-4000 or access the Treasury Web site at www.michigan.gov/iit.

It is very important that Treasury has the proper security measures in place for customers to access account information over the Internet. For privacy and security reasons, customers will have to authenticate and correctly enter a combination of shared secrets (e.g., AGI, social security number, etc.) before information can be accessed.

On the Web site, click on the Self-Service option under Individual. After verification of identification, choose the appropriate link. Additional information may be requested depending on the request. If more than one account will be checked, use the "Login/Logout" button located in the upper-right corner at the end of the Michigan banner to return to the customer login page. The next taxpayer can then be authenticated.

The following self-service options are available for individual tax accounts:

- Check the date Treasury is currently processing returns.
- Check if and when a refund, credit claim or energy draft has been issued for the current year and three prior years.
- Check to see if a refund, credit or energy draft has been returned to Treasury, direct-deposited into an account or offset to a debt.
- Check the status of a letter sent to Treasury.
- Request copies of returns filed.
- Ask Treasury a question related to the account or check the status of a service request.
- Order copies of current and prior year tax forms.
- Request blank tax forms.

By calling the toll free number for Individual Taxes the Treasury Interactive Voice Response (IVR) system will be reached. Be cautioned that background noise or other conversations will be picked up by the IVR. Entering or saying the information required activates the IVR.

The IVR provides the current processing date and promotes self-service on the Web. Options available on the IVR include:

- Current year status - The customer enters a social security number and AGI. The IVR provides status completed with date, pending review with date selected for review, current processing date and date return should finish review, no record of return or the amount entered does not match Treasury records.
- Estimate payments - The customer enters a social security number and AGI from current year minus two and the year the payment is for. (For tax year 2005 enter the AGI from the 2003 return.) The IVR provides payment amount(s) and date(s), credit forward amount and date, no payments on file or transfers the caller to a Customer Service Representative (CSR).
- Prior year information - The customer enters a social security number, AGI and tax year for which customer is seeking information. The IVR provides a payment amount and date, a refund amount and date, a partial paid amount with the date and balance due, tax due amount, credit forward amount and date, no record of return or more than one return filed, amount entered does not match Treasury records, the return has been received and is currently being reviewed, or the refund/credit forward amount and date.
- TeleHelp - This is pre-recorded tax information. The IVR will play a listing of topics with three-digit codes for customers to enter. The customer will then hear pre-recorded topics such as “where to go for help,” “requesting a copy of your return” or “refund offsets.” Multiple options can be checked during one call.

FEDERAL/STATE AND STATE-ONLY ELECTRONIC FILING PROGRAM

Application and Acceptance Process

E-filing of Michigan returns is available to all electronic filers who have been accepted into the federal e-file program and who transmit returns to an IRS Service Center.

To participate in the Fed/State and State-Only e-file Programs, applicants must apply to the IRS by submitting form 8633 APPLICATION TO PARTICIPATE IN THE IRS E-FILE PROGRAM and be accepted. Form 8633 is available from the IRS at 1-866-255-0654, or on the IRS Web site at www.irs.gov.

Once accepted in the IRS e-file program, participation in Michigan's e-file program is automatic. The Michigan Department of Treasury will use the Electronic Filing Identification Number (EFIN) assigned by the IRS. Michigan does not assign any additional identification numbers.

Forms That Can Be E-filed

- MI-1040 Michigan Income Tax Return (**Required for all Fed/State e-filed returns; not required for State Only e-filed returns.**)
- SCHEDULE 1 Additions to and Subtractions From Income
- SCHEDULE NR Nonresident and Part-Year Resident Schedule
- MI-1040 CR Homestead Property Tax Credit Claim, **or**
- MI-1040 CR-2 Homestead Property Tax Credit Claim for Veterans and Blind People

***Note:** Either MI-1040CR or MI-1040CR-2 may be filed, but not both.*

- MI-1040 CR-5 Farmland Preservation Tax Credit Claim
- SCHEDULE CR-5 Schedule of Taxes and Allocation to Each Agreement
- MI-1040 CR-7 Home Heating Credit Claim
- SCHEDULE CT College Tuition and Fees Credit
- 3174 Direct Deposit of Refund
- MI-1040D Adjustments of Capital Gains and Losses
- MI-1040H Schedule of Apportionment (one occurrence)
- MI-2210 Underpayment of Estimated Income Tax
- MI-4797 Adjustments of Gains and Losses From Sales of Business Property
- MI-8839 Qualified Adoption Expenses
- W-2 form Wage and Tax Statement
- 1099 form(s)

The information from the W-2 and 1099 forms is entered in the software and transmitted with the e-filed return. Do not mail W-2 and 1099 forms to Treasury. All 1099 and W-2 information, when applicable, is required when submitting a State-Only return. The IRS is no longer accepting 1099G information with e-filed returns. Therefore, the 1099G information will not be required with the e-filed Michigan return.

Michigan will accept e-file returns for deceased taxpayers. If the federal 1310 return information is required, it must be included with the Michigan e-file return.

- Federal forms and schedules

Exclusions From E-File

When the following forms are included, the MI-1040 **can be e-filed**, but the forms listed on the following page must be mailed.

- MI-1045 Application for Michigan Net Operating Loss Refund
- 4 Application for Extension of Time to File Michigan Tax Returns
- 4013 Resident Tribal Member Annual Sales Tax Credit

The taxpayer is **not eligible for e-file** for the 2005 tax year if filing:

- Returns or forms listed as excluded in *Publication 1345*
- MI-1040 Michigan Income Tax Return and any of the following apply:
 - Fiscal year filer
 - Prior year return(s)
 - Not required to file a U.S.1040 if filing Fed/State
 - Filing MI-1040X Amended Michigan Income Tax Return
 - Filing 3581 Michigan Historic Preservation Credit
 - Filing Schedule CR-5 and taxpayer has more than 25 agreements
 - Filing Schedule CR-5 and taxpayer is filing for Property Development Rights
 - Filing Federal/State joint return and primary filer and/or spouse can be claimed as a dependent. A State-Only return may be e-filed if supported by the software.

Michigan Income Tax E-file Signature Process

Fed/State Returns: Michigan will accept the federal signature (federal 8453 or PIN). Michigan does not require any additional signature documentation. If the taxpayer chooses to complete form MI-8453 MICHIGAN INDIVIDUAL INCOME TAX DECLARATION FOR ELECTRONIC FILING, Treasury recommends that the preparer retain it for six years. **Do not** mail this form to Treasury.

State-Only Returns: State-Only returns that are filed with or without a Michigan income tax return (MI-1040) can be signed using “shared secrets” or the MI-8453 signature document. Shared secrets are the Social Security number(s), previous year’s adjusted gross income (AGI) or household income (HHI), and the previous year’s tax due or refund. If the MI-8453 is used, the preparer may retain a copy of the MI-8453. The MI-8453 should **not** be mailed to Treasury.

Volunteer Groups: If an MI-8453 is completed for an e-filed return, the MI-8453 should be given to the taxpayer to mail to the Department of Treasury. Make certain the taxpayer knows the MI-8453 mailing address. If the taxpayer's Michigan return has been e-filed, write "COPY-DO NOT MAIL" on the taxpayer's copy of the Michigan return.

Acknowledgment of Michigan Returns

Michigan acknowledgments are issued through the IRS State Acknowledgment Service. The Michigan acknowledgment informs transmitters that the Michigan return data has been received. The Michigan acknowledgment is separate from the federal acknowledgment.

Under normal processing conditions, the Michigan acknowledgment file is available to a transmitter within three working days of successful transmission to the IRS. **Do not assume that an acknowledgment from the IRS is a guarantee of receipt by Michigan.**

Michigan will perform checks for the state return during the acceptance process. **All electronically filed returns are subject to Michigan audit and can be delayed regardless of the status code given.** Acceptance and rejection codes are defined below.

A = Electronic return was **accepted**.

D = Duplicate return, return already received for this Social Security number.

R = The return was **rejected** by Michigan. This code will be displayed with one or two three-character status code.

Treasury offers the following options when Michigan returns are rejected, or if problems were encountered during transmission, and the Michigan return or a portion of the return was not transmitted with the federal.

- Michigan return can be retransmitted as a State-Only return, if the software supports the State-Only filing option.
- If the software does not allow for State-Only e-file, the preparer may fax the Michigan MI-1040 and accompanying attachments to the Alternative Filing Office at (517) 636-4378.

Advise taxpayers to wait at least two weeks from the date of acknowledgment before checking on the status of their return.

Rejection Codes Received From the IRS Service Centers

For Fed/State e-file, the IRS will perform specific consistency checks for the state return that will compare data items in the state generic record to the same data items in the federal tax return. If the data items are not identical, both returns will be rejected. For State-Only e-file, the IRS will validate the primary and secondary Social Security numbers against the names. If the return does not pass validation, it will be rejected. Please refer to IRS *Publication 1345* and *1345A* for IRS rejection and error code explanation.

If a federal return is rejected due to errors listed in *Publication 1345A*, the accompanying Michigan return will also be rejected. If the error is one that can be corrected, both return records may be retransmitted to the IRS.

Tax Due Returns

Michigan tax due returns are considered timely filed if the federal and state returns are originally transmitted to the IRS by April 17, 2006. Payments must be postmarked no later than April 17, 2006.

Transmitters should confirm that Michigan has issued an acknowledgment of the state return before considering the state filing complete.

Michigan does not participate in an electronic funds withdrawal process for tax due returns. All payments for e-file returns must be mailed to Treasury along with a copy of form MI-1040-V MICHIGAN E-FILE PAYMENT VOUCHER. **Do not** include a copy of the tax return with the MI-1040-V. Payment is due by April 17, 2006.

Prior to the due date, Treasury will send a reminder notice to all taxpayers that have not yet submitted payment. The reminder will include the amount due if paid on or before April 17, 2006. Do not use form MI-1040-V to make any other payments to the State of Michigan. Payments made with the MI-1040-V should reflect the amount of tax due shown on the return. Overpayments/additional payments should not be made with the MI-1040-V.

Refund Returns

Direct Deposit information is part of the electronic record; therefore, a separate form 3174 DIRECT DEPOSIT OF REFUND does not have to be completed for e-file. However, remember that the Direct Deposit information for the federal and state returns can be different. This is especially important when the taxpayer has a Refund Anticipation Loan (RAL). The federal refund will repay that loan, but the state refund must be deposited into a different account.

The Michigan Department of Treasury **cannot** make any changes to Direct Deposit information after the return is transmitted.

Changes on the Return

If corrections must be made once the return has been accepted and acknowledged, the taxpayer must file an MI-1040X AMENDED MICHIGAN INDIVIDUAL INCOME TAX RETURN on paper.

Contact Information

Michigan e-file publications and forms are available on Michigan Department of Treasury's Web site at www.MIfastfile.org. If you have questions about the e-file program, contact the Alternative Filing staff at:

Alternative Filing Programs
Michigan Department of Treasury
Lansing, Michigan 48922

(517) 636-4450
(517) 636-4378 (Fax)
MIefile2D@michigan.gov

Deaf, hearing- or speech-impaired

(517) 636-4999 (TTY only)

This contact information is for **tax preparers and software developers only** and enables Treasury to provide better service to authorized e-file providers. The Alternative Filing staff is unable to provide return status information or address specific taxpayer account issues.

Tax Preparer Resources

Visit Treasury's Web site at www.MIfastfile.org for more information on Michigan's alternative filing programs including:

- *Michigan Tax Preparer Handbook for Alternative Filing Programs*. This Handbook contains detailed information about Michigan's alternative filing programs.
- Treasury Tax Professionals LISTSERV. This is a free service that disseminates mass e-mail messages, within seconds, to all subscribers. Sign up to receive electronic communications on Treasury's e-file programs and other information of interest. To subscribe to this service or for additional information, visit Treasury's Web site at www.MIfastfile.org and click on "Tax Preparer."
- Information on online e-file courses.
- Frequently asked questions.

CHAPTER 2

HOMESTEAD PROPERTY TAX CREDIT

MI-1040CR, CR-2



CHAPTER 2 HOMESTEAD PROPERTY TAX CREDIT MI-1040CR, CR-2

GENERAL INFORMATION

INTRODUCTION

A homestead property tax credit is given by the State of Michigan to assist residents in paying their property taxes. Property taxes are taxes paid by a homeowner directly to a Michigan city, township or county, or that portion of rent paid to a landlord which represents property tax on an apartment, duplex, home or other rental unit.

CREDIT REFUND

The taxpayer will be refunded the total credit unless he/she has a liability for:

- Income tax, business tax, etc.
- Other State agencies
- Friend of the Court
- Third party liabilities.

If the taxpayer has a liability, the credit will be used to offset the amount due. However, should the credit be greater than the liability, the balance of the credit will be refunded.

INSTRUCTIONS

This chapter will often refer you to the “instructions.” These are the instruction booklets used to prepare the homestead property tax credit forms MI-1040CR and CR-2. Read the instruction booklets. The following information will recap and/or further explain the instructions.

WHO MAY CLAIM A CREDIT

A credit may be claimed for a person who:

1. Was a Michigan resident for at least six months of the year, **and**
2. Owned and/or rented or leased and occupied a Michigan homestead where the landlord paid either property tax or a service fee, **and**

3. Has property taxes that exceed the nonrefundable portion as determined by household income, **and**
4. Has household income that does not exceed \$82,650.

HOMESTEADS THAT DO NOT QUALIFY

A homestead property tax credit may not be claimed for:

1. Rent paid to a city housing project if no property taxes or service fees are paid by the property owner.
2. Rent or property taxes on a summer cottage.
3. Rent or property taxes on property not located in Michigan.
4. Rent paid by anyone who is not a domiciled resident of Michigan.

CALCULATION OF THE CREDIT

Home Owner

For most filers, the credit is equal to 60% of the amount that property taxes exceed 3.5% of household income. If the claimant is: (1) a senior citizen (at least one spouse is 65 or older), or (2) totally and permanently disabled, or (3) blind, or (4) deaf, or (5) paraplegic, quadriplegic, or hemiplegic, the amount that can be claimed is 100% of the amount that property taxes exceed 3.5% of the household income.

Renter

For most filers, the credit is equal to 60% of the amount that 20% of the annual rent exceeds 3.5% of household income. If the claimant is either: (1) a senior citizen (at least one spouse is 65 or older), or (2) totally and permanently disabled, or (3) blind, or (4) deaf, or (5) paraplegic, quadriplegic, or hemiplegic, the amount that can be claimed is 100% of the amount that 20% of the rent exceeds 3.5% of household income.

PERCENT NOT REFUNDABLE - HOUSEHOLD INCOME \$6,000 OR LESS

For most filers, 3.5% of household income is subtracted from the annual property tax or 20% of annual rent to arrive at the credit. However, if the claimant or spouse is 65 or older or is a paraplegic, quadriplegic, hemiplegic, blind, deaf, or is totally and permanently disabled, **and** the total household income is \$6,000 or less, use the percentage found in the table below.

<u>Income</u>	<u>% of Income</u>
\$3,000 or less	0%
\$3,001 - \$4,000	1
\$4,001 - \$5,000	2
\$5,001 - \$6,000	3
Greater than \$6,000	3.5

MAXIMUM CREDIT

The maximum credit is \$1,200, even if the calculated amount is greater than \$1,200.

PHASE-OUT

For taxpayers whose household income exceeds \$73,650, the computed credit (maximum \$1,200) must be reduced by 10% for each thousand or portion of thousand over \$73,650.

WHEN TO FILE CLAIM

Claims must be filed within four years from the due date of the MI-1040.

WHICH FORM TO USE (MI-1040CR OR MI-1040CR-2)

Use form MI-1040CR for:

- General claimant.
- Senior citizen - regular method. Also, paraplegic, quadriplegic, hemiplegic, totally and permanently disabled, blind or deaf persons.
- Senior citizen - alternate rent credit (rent larger than 40% of household income).
- Senior citizen - homeowner over age 97 optional method.

Use form MI-1040CR-2 for:

- Veteran with a service-connected disability or veteran's surviving spouse, a surviving spouse of a veteran deceased in service, a veteran of wars before World War I, or a pensioned veteran.
- Blind person who owns his/her home.

IDENTIFICATION

Complete the identifying information section as follows:

1. Enter name(s) and current mailing address. Use the mailing label if the information is correct.
- 2&3. Enter the social security number(s) on the return, even if the label is used. Ask to see the claimant's social security card(s). It is important that the correct number is entered. Both social security numbers must be included on the form for married filing jointly and filing separately. This claim must be filed jointly unless there is a legal separation **and** separate homesteads are maintained.
4. Enter school district code. Obtain the code numbers from the instruction booklet.
5. Check the box that applies to the taxpayer or spouse.

Use the following definitions:

- Senior Citizen One spouse must be 65 or older on December 31, 2004 to qualify. The unremarried spouse, regardless of age, of a person who was 65 or older at the time of death also qualifies.
- Paraplegic An individual who has paralysis of the lower half of the body
- Quadriplegic An individual who has paralysis of both arms and both legs
- Hemiplegic An individual who has paralysis of one side of the body

- Totally and permanently disabled person
Generally a claimant who qualifies for this credit is receiving social security disability, Supplemental Security Income (SSI), or veterans' disability retirement payments. An individual who is 65 or older cannot claim totally and permanently disabled.
- Deaf
Hearing-impaired to a degree that the primary method of receiving communication is through a sense other than hearing.
- Blind
Vision with corrective lenses of 20/200 or less in the better eye, or peripheral field vision of 20 degrees or less.

COMPUTATION

This section identifies the allowable taxes, rent and household income which are the key figures needed to calculate the credit.

PROPERTY OWNER

Property Taxes

The taxable value (TV) and property taxes must be entered on lines 6 and 7 of the return. The TV can be found on the property tax statement, or it can be obtained from the local tax assessor.

Homestead Property Owner

Determine that the property is occupied by the owner. Remember:

1. Claim only the taxes **billed** for the year of claim regardless of when tax was paid.
2. Administrative fees of up to 1% of the taxes may be included in the amount of taxes used to compute the credit.
3. Special assessments may **not** be included in taxes unless special assessments are based on the TV and applied to the entire taxing jurisdiction. Public Act 28 of 2003 allows assessments on a portion of a township to be included in the credit calculation if the assessment is for police, fire or advanced life support.
4. Delinquent taxes paid in 2005 may **not** be included in the amount of taxes used to compute the credit for 2005.
5. If the homestead was bought or sold during 2005, the taxes must be prorated for the time each homestead was occupied.

Farmland Property Owner

A claimant is entitled to a homestead property tax credit on farmland under the following conditions:

1. If gross receipts from farming are greater than claimant's household income, all taxes on farmland may be claimed for credit including taxes on unoccupied land. The claimant may not include taxes on land that is not adjacent or contiguous to his/her home and that is rented or leased to another person.
2. If gross receipts from farming are less than claimant's household income, taxes are limited to property taxes on farmland adjacent and contiguous to the home providing claimant lived on the land 10 years or more, **or**
3. If claimant has not lived on the land for 10 years and the gross receipts from farming are less than household income, only the taxes on the home and 5 acres of adjacent or contiguous farmland may be claimed for credit. The township assessor can give the claimant this information.

Home Owner, Full Year

Indicate taxable value on line 6 and all allowable property taxes on line 7.

Home Owner, Part Year

Property taxes must be prorated if the claimant was a part-year resident **or** a full-year resident who bought or sold a home during the year. The total time claimed for all homesteads must not exceed 12 months or 365 days, and the taxes must be prorated for the time claimant lived in each. Part-year residents are limited to the number of days they actually lived in Michigan. They must live in Michigan for at least **six months to qualify**. Complete lines 36 through 42 on the back of the return. Use both columns if necessary. Then carry the figure on line 42 to line 7.

Example:

Richard Dixon sold his homestead (house A) on March 15. He occupied it until March 31. On April 1, he moved into a new homestead (house B) which he purchased. Property taxes billed for that year are as follows:

<u>Taxing Authority</u>	<u>Date Billed</u>	<u>House A</u>	<u>House B</u>
City	July	\$550	\$ 950
County	November	<u>125</u>	<u>219</u>
Total		<u>\$675</u>	<u>\$1,169</u>

Mr. Dixon occupied house A for 90 days and house B for 275 days in the tax year. He is entitled to use the following percentage of property taxes on each house for the credit:

<u>House A</u>	<u>House B</u>
$\frac{90 \text{ Days}}{365 \text{ Days}} = 25\%$	$\frac{275 \text{ Days}}{365 \text{ Days}} = 75\%$

Therefore, Mr. Dixon is entitled to use the following taxes:

	<u>Total Tax</u>		<u>%</u>		<u>Allowable Tax</u>
House A	\$ 675	x	25%	=	\$ 169
House B	<u>1,169</u>	x	<u>75%</u>	=	<u>877</u>
Total	<u>\$1,844</u>		<u>100%</u>		<u>\$1,046</u>

RENTER

Rent

If a landlord does not pay property tax or a service fee, no portion of the rent is considered to be property tax. Therefore, no credit is allowed.

Rent should not include security deposits, late fees, or charges for other services provided, such as meals or housekeeping.

The property tax included in rent is as follows:

1. 20% of rent paid, if the landlord pays property tax.
2. 10% of rent paid, if the landlord pays a service fee to the local unit of government instead of property tax. (If service fee is less than 10%, use that percentage.)

Renter, Full Year

Claimant rented homestead for the full year (12 months). Complete lines 43 and 44 on the back of the return. Carry the figure on line 44 to line 8 on the front of the return. Calculate 20% of line 8 and enter on line 9.

Renter, Part-Year

Claimant either moved from a rental situation to owning a home, was a part-year resident, or is filing on behalf of a deceased taxpayer. Claimant may only claim rent for the period of time he/she was a resident and actually occupied the rental unit. Do not include rent beyond the dates claimant lived in the unit (e.g., paid additional rent to fulfill a lease when he/she moved to another homestead). Complete lines 43 and 44 on the back of the return. Carry the figure on line 44 to line 8 on the front of the return. Calculate 20% of line 8 and enter on line 9. If the claimant also bought/sold a home, complete lines 36 through 42 and carry the figures to line 7.

TYPES OF HOUSING

To determine whether the claimant should be reporting a property tax figure or rent, consider the various types of housing and/or circumstances that may affect how the claimant should file.

Mobile Home

A claimant living in a mobile home park may claim \$3 per month in addition to 20% of the balance of the rent paid. The \$3 per month is a specific tax in addition to the general property tax paid. If the renter also pays a **separate property tax** for an additional attached building (such as a garage, carport or shed), he/she may also claim the specific property tax. The taxes must be billed separately to qualify. Complete lines 43 and 44 on the back of the return. Include the lot rent minus the \$3 per month tax. Carry the figure on line 44 to line 8. Calculate 20% of line 8 and enter on line 9. Also, enter \$3 a month or \$36 for the full year for the specific tax on line 7.

Example:

Gerald Dodge lives in the Happy Motor Trailer Park. You have reviewed rental receipts which disclose the total rent paid of \$1,036.

Included in each month's rent is a \$3 specific tax, which totals \$36 a year. Enter this amount on line 7 as taxes paid, and enter the balance of \$1,000 on line 8 as rent paid.

Service Fee Housing

Complete lines 45 through 47 of the back of the return. Carry the figure on line 47 to line 7 on the front of the return. Leave line 6 blank and **do not** complete lines 8 and 9.

Nursing Home, Home for the Aged and Adult Foster Care Claimants

A permanent resident of a nursing home, home for the aged or foster care home is entitled to a homestead property tax credit if the facility bills a lump sum for rent and services. The resident's allocable share is calculated by dividing the facility's property tax by the number of licensed beds.

If the facility received a direct payment from a state or federal agency for the care of the resident, then the allocable share may be limited. The resident cannot claim an allocable share that is greater than the charges paid by the resident to the facility.

Example: Mrs. Brown's nursing home charges were billed in a lump sum of \$12,500 (for rent, food and other nursing services) to the State of Michigan. Of that sum, \$12,000 was paid directly to the nursing home by the state. Mrs. Brown paid the balance due of \$500. Mrs. Brown's "allocable share" of property taxes on the nursing home, based on 100 beds and \$60,000 in real property taxes, is \$600. Since Mrs. Brown's total charges paid by her are less than her "allocable share," only the lesser amount of \$500 may be used by her for calculating a property tax credit.

Room and Board

If the claimant pays room and board in **separate** billings, the claimant must base the credit on the rent. If the claimant pays room and board in **one** billing, the credit must be based on a prorated share of the property taxes on the facility. If the landlord does not provide this figure, divide the square footage of the claimant's living space by the total square footage of the facility, then multiply the total taxes on the facility by that percentage.

Special Housing

If the claimant resides in housing where the rent includes meals and other services (housekeeping, laundry, transportation, etc.), the credit must be based on the prorated share of the taxes on the entire property. The facility must provide the claimant with the prorated share of the property taxes for use in the credit calculation. Claimants may not calculate the credit by using the portion of the monthly payment as rent.

Cooperative Housing

Use the claimant's share of property taxes on the building and 20% of rent paid on leased land (if co-op is built on rented land). Ask to see a statement from the co-op giving the amount of taxes or the percentage of the monthly payment that is considered tax on claimant's unit. Complete lines 43 and 44 for the "land rent" and carry to line 8. Calculate 20% and enter on line 9. Indicate TV on line 6 and enter property taxes on line 7.

HOUSEHOLD INCOME

Complete lines 11 through 28 according to the instructions.

Household income is the total income of a husband and wife or a single person maintaining a household. It is made up of taxable and non-taxable income. Household income is federal AGI plus income that is specifically excluded or exempted from federal tax. (*See Chart CC-41011 Income and Deductible Items, Summary Chart, page 76.*)

The following is a **partial list** of excluded income that must be included in a claimant's household income:

1. Benefits received from Social Security, including supplemental security income (SSI) and railroad retirement benefits. Do not include Medicare payments in this total.
2. Family Independence Program (FIP) assistance and Department of Human Services (DHS) (formerly Family Independence Agency).
3. Unemployment insurance benefits.
4. Worker's compensation payments.
5. Veteran's disability payments, pension benefits, or mustering out payments.
6. Amounts received for loss of wages due to permanent disability.
7. Amounts received as damages for personal injury or sickness.
8. Amounts in excess of the claimant's contributions received from a pension plan or annuity. This includes reimbursement payments, such as an increase in a pension to pay for Medicare charges.
9. Life insurance proceeds, except benefits from insurance on a spouse.
10. Money received from a person who is legally obligated to support a member of the household.
11. An inheritance, bequest, or devise, excluding an inheritance from a spouse.
12. Educational benefits received under federal or state legislation with respect to services in the military or naval forces of the United States.
13. A scholarship or other educational grant.
14. Income from an obligation issued by a state or its political subdivisions, including this state.
15. Gifts in cash or kind from nongovernmental sources exceeding \$300.
16. The portion of capital gains and dividends excluded or deducted from federal adjusted gross income.
17. All capital gains. This is the total of short- and long-term gains less short- and long-term losses from U.S. Schedule 1040D. Include gains realized on the sale of taxpayer's residence regardless of age or whether or not these gains are exempt from federal income tax. Losses may not be deducted.

18. Death benefits paid by or on behalf of an employer excluding benefits paid for a spouse.
19. Earned income from foreign sources excluded from federal gross income.
20. Accumulation distributions received from a trust.
21. Net rental income.
22. Child support.
23. Lump sum distributions that have been deducted in arriving at federal AGI.
24. Amounts received for minor children or other dependent adults who live with the claimant.

Household income **does not include** (partial list):

1. Minor child's income.
2. Loan proceeds.
3. Surplus foods.
4. Receipt of original contributions to pension plans.
5. Relief in kind by a governmental unit such as Medicaid payments to a nursing home or doctor, or rent paid in whole or in part directly to the landlord. Chore service payments are income to the provider but not to the person receiving the benefits.
6. Governmental grants which must be used by the claimant to improve a homestead.
7. State and city income tax refunds, including homestead property tax and home heating credits. Farmland preservation tax credits are included in federal AGI and household income.
8. Amounts deducted from social security or railroad retirement benefits for Medicare premiums.
9. Amounts paid by an employer for life, health, or accident insurance.
10. First \$300 in income from gambling, bingo, lottery, or prizes and awards during the year.
11. Stipends received by a person 60 years of age or older who is acting as a foster grandparent under the Foster Grandparent Program or as a senior companion of the Domestic Volunteer Service Act.

12. An inheritance from a spouse.
13. Life insurance benefits from a policy on the claimant's spouse.

Note: Any health insurance premiums paid, in whole or in part, by the claimant and not by the employer for both claimant and family are deductible from gross income to arrive at household income. The filer may not claim protection insurance premiums for monetary compensation if he/she acquires a specific disease or becomes disabled. Also, a deduction may not be taken for insurance premiums covering the cost of nursing home or in-home care. The taxpayer may claim the **portion** of an auto insurance policy that covers medical coverage.

Enter the following on line 25, "Other Adjustments," taken from the adjustments to income portion of the U.S. 1040:

1. Payments made to an IRA, Keogh (HR10), SEP or Simple Plans if deducted from federal adjusted gross income
2. Student loan interest deduction
3. Health savings account deduction
4. Medical insurance/HMO premiums claimant paid
5. Moving expenses when moving into Michigan
6. Deduction for ½ of the self-employment tax
7. Self-employed health insurance deduction
8. Forfeited interest penalty for premature withdrawal
9. Alimony paid
10. Net operating loss (NOL) deduction (may not exceed federal modified taxable income.)
11. Educator expenses
12. Tuition and fees deduction
13. Domestic production activities deduction.

The adjustments listed above, plus any other losses shown, should be supported by attaching a copy of the front page of the U.S. 1040 and/or all supporting schedules indicating the losses.

See instruction booklet for additional information. Refer to Chart CC-41011 (page 76) for other items which may or may not be included in household income.

INSUFFICIENT INCOME TO COVER LIVING EXPENSES

Household income must be sufficient to pay property taxes or rent plus living expenses. If income is insufficient, attach a note explaining the extenuating circumstances. You may ask some general questions to obtain additional information.

Example:

A claimant comes into the office with W-2's showing total wages of \$2,500 which he/she claims to be the only income received for the year. This claimant also shows you rent receipts totaling \$3,000. Upon questioning the claimant, you discover the claimant has 3 children and claims that no other money was received during the year. Obviously, something is wrong. The claimant spent \$3,000 towards rent but only had \$2,500 available to spend. In addition, there must have been other living expenses incurred to maintain the household.

The following are some questions you might ask the claimant in order to ascertain other possible sources of income:

- Did you receive ANY other income during the year from other sources, such as child support?
- Did you receive food stamps or other non-cash assistance during the year?
- Did you share living expenses with anyone else (rent, food, etc.)?
- Did you receive gifts of cash or were expenses paid on your behalf by friends or relatives?

Returns suspected to be fraudulent should be sent directly to the Discovery and Tax Enforcement Division, with a note of explanation.

CREDIT COMPUTATION METHODS

This section discusses how to compute a property tax credit. If the claimant is eligible for more than one method, choose the method which produces the largest credit.

All filers must reduce the computed property tax credit by 10% for every \$1,000 (or part of \$1,000) that household income exceeds \$73,650. A property tax credit is not available to any filer whose household income exceeds \$82,650.

The credit computation methods are:

- General claimant
- Senior citizen - regular method. Paraplegic, quadriplegic, hemiplegic, totally and permanently disabled, blind or deaf person.
- Senior citizen - alternate rent credit method (rent larger than 40% of household income)

- Senior citizen - optional method (homeowner age 96 and older)
- Service persons or veterans or their widows or widowers
- Blind persons
- Family Independence Program (FIP) recipient.

GENERAL CLAIMANT

Qualifications

This method is available when the claimant or spouse does not qualify for any other method or when the taxpayer or spouse does qualify for one or more of the other methods but the other method(s) results in a smaller refund or credit.

Method of Computation

The credit is equal to 60% of the amount by which property taxes or 20% of the rent paid exceeds 3.5% of household income.

Examples:

<u>Homeowner</u>		<u>Renter</u>	
Property Taxes	\$620	Rent/Year	\$3,000
		x 20%	<u>x .2</u>
			600
Household Income	\$8,000	Household Income	\$8,000
x 3.5%	<u>x .035</u>	x 3.5%	<u>x .035</u>
Amount Not Refundable	<u>- 280</u>	Amount Not Refundable	<u>- 280</u>
Balance	340	Balance	320
x 60%	<u>x .6</u>	x 60%	<u>x .6</u>
Credit	<u>\$204</u>	Credit	<u>\$ 192</u>

Note: A general claimant will always apply 3.5% to household income, even when the household income is \$6,000 or less.

**SENIOR CITIZEN, PARAPLEGIC, QUADRAPLEGIC,
HEMIPLEGIC, TOTALLY AND PERMANENTLY DISABLED,
BLIND, OR DEAF PERSONS**

Qualifications

See pages 22 and 23 of this text.

Method of Computation

The credit equals the amount by which property taxes or 20% of the rent paid exceeds 3.5% of household income. The following examples illustrate the computation for both the homeowner and the renter.

Examples:

<u>Homeowner</u>		<u>Renter</u>	
Property Taxes	\$620	Rent/Year	\$4,000
		x 20%	<u>x .2</u>
			800
<u>Homeowner</u>		<u>Renter</u>	
Household Income	\$8,000	Household Income	\$8,000
x 3.5%	<u>x .035</u>	x 3.5%	<u>x .035</u>
Amount Not Refundable	<u>- 280</u>	Amount Not Refundable	<u>- 280</u>
Credit	<u>\$340</u>	Credit	<u>\$ 520</u>

Notes: If household income is \$6,000 or less, substitute the 3.5% with the lower percentage found in the table on page 22 of this text or in the instruction booklet.

A homeowner who is blind has the option of choosing the CR-2 form to complete the credit.

**SENIOR CITIZEN - ALTERNATE METHOD FOR RENTER
(RENT LARGER THAN 40% OF HOUSEHOLD INCOME)**

Qualifications

A claimant is eligible for this method if either spouse is 65 or over, and they rent their homestead.

Method of Computation

The credit is equal to the amount by which the annual rent paid exceeds 40% of the household income. The illustration below compares this method to the regular method for a senior citizen.

<u>Regular Method</u>		<u>Alternate Method</u>	
Rent/Year	\$4,000 <u>x .2</u> 800	Rent/Year	\$4,000
Household Income	\$8,000	Household Income	\$8,000
x 3.5%	<u>x .035</u>	x 40%	<u>x .4</u>
Amount Not Refundable	<u>- 280</u>	Amount Not Refundable	<u>- 3,200</u>
Regular Method Credit	<u>\$ 520</u>	Alternate Method Credit	<u>\$ 800</u>

Use the Alternate Method = \$800.

SENIOR CITIZEN - HOME OWNER AGE 97 OR OVER IN 2005

Qualifications

To qualify for this method the taxpayer must meet all of the following:

1. The claimant or spouse must have received a senior citizen credit in 1973.
2. The household income must be less than \$6,000.
3. The claimant's age is at least:

<u>Year</u>	<u>Age</u>
2001	93
2002	94
2003	95
2004	96
2005	97

Method of Computation

Use the following formula to determine the property tax credit:

$$\frac{\$2,500}{TV} \times \text{Property Tax} = \text{Credit}$$

Example:

Harry Freeman is 97 years old and his household income is \$5,500. The taxable value on his house is \$10,000, while the property taxes are \$320. Using the optional method Mr. Freeman's credit is \$80, determined as follows:

$$\frac{\$2,500}{\$10,000} \times \$320 = \$80$$

However, using the senior citizen household income method, as discussed earlier, Mr. Freeman's credit is \$155, determined as follows:

Property Taxes	\$320
Taxes Not Refundable (Table 3)	
(3% x \$5,500)	<u>-165</u>
Allowable Credit	<u>\$155</u>

In this situation, you would prepare the form using the household income calculation, even though the claimant qualifies for both methods. If a senior citizen is qualified to use the alternate method, attach a sheet showing the computation.

Senior citizens who are renters are not entitled to use the optional method.

SERVICE PERSONS, VETERANS, OR THEIR WIDOWS OR WIDOWERS

Qualifications

A serviceman, servicewoman, veteran and his/her widow or widower who owns his/her own home and meets one of the following descriptions is entitled to use a special taxable value calculation (MI-1040CR-2):

1. Veteran with service-connected disability or widow or widower
2. Widow or widower of a veteran deceased in service
3. Veteran of war before World War I or widow or widower

4. Pensioned veteran or widow or widower
5. Active serviceperson or widow or widower
6. Widow or widower of a nondisabled or nonpensioned veteran of certain wars.

To qualify under categories 3 through 6 above, the claimant cannot have household income greater than \$7,500. Family Independence Program (FIP) DHS benefits must be included in the household income.

Method of Computation - Home Owner

The credit calculation for an eligible serviceman, servicewomen, veteran, widow or widower is:

$$\frac{\text{TVA}}{\text{TV}} \times \text{Property Tax} = \text{Credit}$$

Table 1 in the CR-2 instruction booklet lists the taxable value allowance (TVA) for each category of serviceman, servicewoman, veteran, widow or widower.

To determine the refundable percentage for TVs, divide the TVA by the TV.

Method of Computation - Renter

The following formula is used to compute the TV:

$$\frac{\text{20\% of Rent Paid}}{\text{Combined Millage Rate of the of the Locality of the Homestead (Non-homestead rate must be used)}} = \text{TV}$$

Example:

Martin Barnum is a 70% disabled veteran. He lived all year in an apartment and paid \$250 per month in rent. The combined county and city millage rate on the property is 56 mills (.056). Mr. Barnum's property tax credit is calculated as follows:

1. Property tax included in rent:

Monthly Rent	\$ 250
x 12 Months	<u>x 12</u>
Annual Rent	3,000
x 20%	<u>x .20</u>
Property Tax	<u>\$ 600</u>

2. TV:

Property Tax divided by Combined Millage Rate = TV

$$\frac{\$600}{.056} = \$10,714$$

3. TVA (taxable value allowance) for a 70% disabled veteran is \$4,000. (See Table 1 in the MI-1040CR-2 booklet.)

4. Percent of taxes refundable from $\frac{TVA}{TV} = 37.3\%$

5. Property Tax Credit:

20% of Annual Rent multiplied by % of
Taxes Refundable = Allowable Credit

$$\$600 \times 37.3\% = \$224$$

BLIND PERSON

Qualifications

To use the following method a person must qualify as blind under MCL 206.504(1). Generally, this is vision of 20/200 or less in the better eye with corrective lenses, or peripheral field vision of 20 degrees or less.

Method of Computation

The credit calculation for a blind person is:

$$\frac{TVA}{TV} \times \text{Property Tax} = \text{Credit}$$

The TVA for the following categories of blindness is:

<u>Claimant</u>	<u>TVA</u>
Blind individual	\$3,500
Husband and wife (one blind)	3,500
Husband and wife (both blind)	7,000

A blind claimant who is a home owner may use the TVA/TV method. A blind claimant who is a renter may not use the MI-1040CR-2.

PUBLIC ASSISTANCE RECIPIENT/DEPARTMENT OF HUMAN SERVICES

Qualifications

An individual whose only income is from the DHS is not eligible for a homestead property tax or rent credit. Assistance payments include FIP and State Disability Assistance (SA). A taxpayer who received other income in addition to these benefits is eligible to file for the credit.

Method of Computation

Prorate the credit for a DHS recipient by using the ratio (percentage) of non-DHS income to total household income.

Example:

Jane Canton earned wages of \$4,000 and received DHS payments of \$6,000 during the tax year. She will receive a credit equal to 40% of the property tax credit.

$$\frac{\text{Non-DHS Income (Wages)}}{\text{Household Income}} = \frac{\$ 4,000}{\$10,000} = 40\%$$

If her property tax or rent credit was computed at \$400, she would receive a credit of \$160 (\$400 x 40%).

Child Support

Subtract child support payments included in the DHS benefits from the amount on the DHS statement when calculating the non-DHS income. Include the child support as other income when computing the ratio of non-DHS income to total household income.

Example:

Jane Canton informs you that her husband pays child support. She should obtain a child support statement from the Friend of the Court indicating the amount of child support paid. If the statement indicates her husband paid \$2,000 in child support, compute the percentage as follows:

DHS		\$ 6,000
Less: Child Support Per Statement		
From Friend of the Court		<u>2,000</u>
Net DHS		<u>\$ 4,000</u>

$$\frac{\text{Wages + Child Support}}{\text{Household Income}} = \frac{\$4,000 + \$2,000}{\$10,000} = 60\%$$

In this example, Jane can claim 60% of the credit. Make the following three entries on the household income schedule:

Wages	\$ 4,000
FIP/DHS	4,000
Child Support	<u>2,000</u>
Total Household Income	<u>\$ 10,000</u>

Attach the annual statement from Friend of the Court to form MI-1040CR or MI-1040CR-2, whichever is being completed.

(See page 95 for further information on DHS and Child Support.)

SPECIAL SITUATIONS

Married-Joint Filers, Separate Homesteads

A claimant may file for one 12-month period. Even though a husband and wife maintain separate homesteads, if they file a joint state income tax return they must file a joint property tax credit. They may claim only one homestead and must include their total combined household income.

Married-Separate Filer, Joint Homestead

If a husband and wife file separate federal and Michigan returns and maintain a joint homestead they must:

1. Enter combined household income.
2. Enter total property taxes and/or rent paid for the year.
3. Split the credit between spouses.
4. Attach a copy of the CR form to each return.

Example:

Jason and Ruth Gordon (husband and wife) maintain one homestead at 111 Main Street, Anytown, Michigan. They filed separate federal and Michigan income tax returns. Their only income is wages. Jason earned \$20,000 and Ruth earned \$15,000. Homestead property taxes are \$2,425. The correct property tax credit is computed as follows:

Jason's Wages	\$20,000
Ruth's Wages	<u>15,000</u>
Combined Household Income	<u>\$35,000</u>

Homestead Property Tax	\$ 2,425
Less 3.5% of Household Income (.035 x \$35,000)	- <u>1,225</u>
Net Property Tax x 60%	1,200 <u>x .60</u>
Homestead Property Tax Credit	<u>\$ 720</u>

The total of the Gordon's property tax credit cannot exceed \$720. If the Gordons elect to split the credit evenly, each would claim \$360.

Married-Separate Filer, Separate Homestead

If a husband and wife file separate federal and Michigan returns and maintain separate homesteads for the entire year they must:

1. Determine that each spouse has established his/her separate domicile.
2. Enter only his/her household income.
3. Enter only property tax and/or rent paid on his/her homestead.

Divorced or Separated Filer

If a married couple separates or obtains a divorce during the year, each party usually establishes a separate homestead. The rules for determining homestead property tax for each claimant are:

1. Each claimant is entitled to a prorated share of the taxes or rent paid for the period prior to separation or divorce based on each claimant's income to total income for the period.
2. Each claimant is entitled to his/her own prorated property tax or rent paid after separation plus his/her share of taxes or rent paid in period prior to separation or divorce.
3. If applicable, a claimant must include house payments or rent paid by the other claimant in household income.

Example:

A husband and wife separated on May 1. The property tax on the home is \$800. The husband continued to pay the mortgage on the home of \$225 per month. In addition, he rented an apartment for \$200 per month from May 1 through December 31. His income for the period prior to divorce is \$4,000, and her income is \$2,000.

Husband:

1.	No. of Months in Year With Spouse	x	Property Tax	x	$\frac{\text{Husband's Income}}{\text{Total Income}}$	=	Prorated Property Tax for Period Living Together
	4/12	x	\$800	x	$\frac{\$4,000}{\$6,000} (.667)$	=	\$178
2.	No. of Months Rented	x	Monthly Rent	x	20%	=	Prorated Tax in Rent
	8	x	\$200	x	.20	=	\$320
3.	Prorated Property Tax	+	Tax Paid in Rent			=	Prorated Property Taxes
	\$178	+	\$320			=	\$498

Wife:

1.	No. of Months in Year With Spouse	x	Property Tax	x	$\frac{\text{Wife's Income}}{\text{Total Income}}$	=	Prorated Property Tax for Period Living Together
	4/12	x	\$800	x	$\frac{\$2,000}{\$6,000} (.333)$	=	\$89
2.	Remainder of Months per Year	x	Property Tax			=	Prorated Property Tax
	8/12	x	\$800			=	\$533
3.	Prorated Property Tax	+	Prorated Property Tax			=	Prorated Property Taxes
	\$89	+	\$533			=	\$622

Wife must include \$1,800 in household income because her husband paid the monthly mortgage payments of \$225 for 8 months after the separation (\$225 x 8 = \$1,800).

Part-Year Resident

If claimant resided in Michigan for at least six months of the year of the claim:

1. Enter household income received during the time claimant resided in Michigan. It may be necessary to annualize household income to determine if income exceeds phase-out limit. (*See "Annualized Household Income."*)
2. Enter rent paid or prorated property tax for length of time claimant occupied a Michigan homestead. (*See page 25 for proration of property tax.*)

Note: Business income and/or losses which occurred in another state must be included in Michigan household income based on the number of days the claimant was a Michigan resident to 365 days.

Deceased Claimant, Single Individual

If filing for a deceased claimant with no surviving spouse:

1. Enter household income received up to the date of death. (*See "Annualized Household Income."*)
2. Enter prorated property taxes or use the amount of rent paid to decedent's date of death.

Note: The heir, personal representative, or person (other than spouse) filing for decedent must file MI-1310 STATEMENT OF PERSON CLAIMING REFUND DUE DECEASED TAXPAYER with claim.

Annualized Household Income

A part-year resident or claimant filing on behalf of a deceased taxpayer must annualize the household income to determine if income exceeds the phase-out limit. If the claimant is over 65 or is a paraplegic, quadriplegic, hemiplegic or is totally and permanently disabled, and is filing either as a part-year resident or on behalf of the deceased, the household income must be annualized to determine the percentage of taxes not refundable.

To annualize household income, compute income as follows:

$$\frac{\text{Michigan Income}}{\text{\# of Days in Michigan}} = \text{Income Per Day} \times 365 \text{ Days} = \text{Annualized Income}$$

Example:

A claimant and spouse were residents of Michigan for 212 days of the tax year and had household income of \$20,417 during their Michigan residency. Compute their annualized income as follows:

$$\frac{\$20,417}{212} = \$96.31 \times 365 \text{ days} = \$35,153$$

Owner-Occupied Rental Property

If a claimant owns and lives in a multiple dwelling homestead and rents a portion of it, not all the property tax can be claimed for credit.

Note: School operating taxes are only levied on the non-homestead portion of the property and may not be included in taxes levied when computing the property tax credit.

Owner-occupied duplexes. When both units are equal, the taxes that can be claimed are limited to 50% of the tax on both units, after subtracting the school operating taxes from the total taxes billed.

Owner-occupied income property. Apartment building owners who live in one of the units or single family homeowners who rent a room(s) to a tenant(s) must do two calculations to figure the tax they can claim and base their credit on the **lower** amount. First, subtract 20 percent of the rent collected from the tax that can be claimed for credit. Second, reduce the tax claimed for credit by the amount of tax claimed as a business deduction on your U.S. 1040.

For example, if a home has an upstairs apartment that is rented to a tenant for \$395 a month. Total property taxes on the home are \$2,150. The calculations are as follows:

Step 1: \$395 x 12 = \$4,740 annual rent
 \$4,740 x .20 = \$948 taxes attributable to the apartment
 \$2,150 total taxes - \$948 = \$1,202 taxes attributable to owner's homestead.

Step 2: \$2,150 total taxes - \$858 taxes claimed as a business deduction = \$1,292
 taxes attributable to homestead.

The owner's taxes that can be claimed for credit are \$1,202, the smaller of the two computations.

Adults Sharing Homestead

Two or more unrelated adults may be entitled to claim a property tax as explained below.

1. If one of the individuals signed the lease and makes all payments or owns the homestead and pays the property tax, that adult is entitled to claim a credit on the total property tax or rent paid. If the other person contributes to the household, that amount must be included in the claimant's household income. Include it on line 21 (Other Nontaxable Income).

Or

2. If each of the adult occupants owns the homestead or has contracted to pay a share of the rent, each is a claimant and is entitled to file a claim based on his/her own household income and his/her share of the taxes or rent paid.

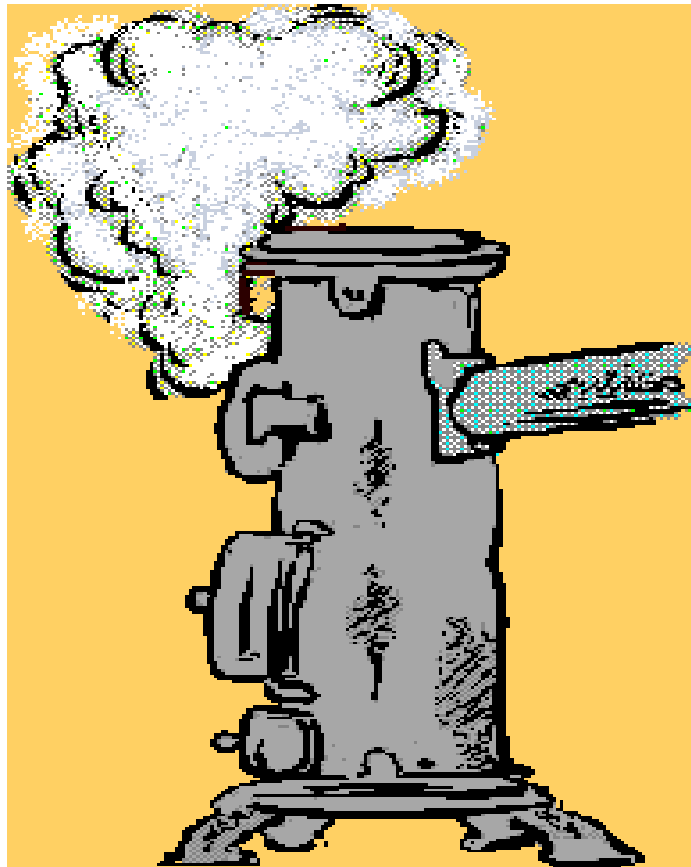
Example:

A claimant owns and occupies a homestead that she shares with her two adult children. Neither child paid rent or room and board but contributes to their mother's household income. Since the children are not owners of the home nor did they contract to pay rent, the mother is entitled to claim all the property taxes in computing her homestead property tax credit. She must include the childrens' contributions in household income.

CHAPTER 3

HOME HEATING CREDIT

MI-1040CR-7



CHAPTER 3 HOME HEATING CREDIT MI-1040CR-7

GENERAL INFORMATION

INTRODUCTION

A home heating credit helps low-income families pay their heating costs. This credit is claimed on form MI-1040CR-7.

Note: Michigan's home heating credit is funded by federal Low-Income Home Energy Assistance Program Grants. The credit for 2005 may be reduced if the grant from the Low-Income Home Energy Assistance Program has been reduced.

Do not attach the CR-7 to the MI-1040. The home heating credit cannot offset an income tax liability. If the CR-7 is attached to the MI-1040 it may cause delays in processing the credits.

Under **Public Act 335 of 2004** for certain claimants, the amount of a credit that exceeded outstanding heating bills would have to be applied by the energy provider to subsequent bills until used up or until nine months had passed. If there was any remaining energy draft amount after the nine-month period (or if the claimant was no longer a customer of the provider before the end of the nine-month period), the heating fuel provider would remit it to the claimant within 14 days. This would apply only if the claimant received home heating assistance from the DHS, a governmental agency or a nonprofit organization 12 months prior to remitting an energy draft to the claimant's enrolled heating fuel provider.

As a result of this legislation, DHS clients who receive their heat from DTE Energy, Consumers Energy or SEMCO Gas will have their home heating credit sent directly to their heat provider whether or not they are enrolled in DHS's direct payment program.

The current refund provisions would continue to apply to a claimant who did not fit the category described above.

INSTRUCTIONS

Read the instruction booklet. The following information will recap and/or further explain the instructions in the booklet. ("Instructions" means the booklet used to prepare form MI-1040CR-7 HOME HEATING CREDIT.)

WHEN TO FILE CLAIM

A home heating credit claim must be filed by September 30 of the year following the year of the claim.

ELIGIBILITY

Who May Claim a Credit

A credit may be claimed if each of the following is true:

1. Taxpayer's homestead is in Michigan.
2. Taxpayer owns or rents the home where he/she lives.
3. Taxpayer's income is within the income limits listed on page 15 of the CR-7 booklet.

Who May Not Claim a Credit

A home heating credit cannot be claimed if:

1. Taxpayer is a full-time student claimed as a dependent by another person.
2. Taxpayer is a resident of a congregate care facility, i.e., nursing home, foster care home, home for aged, substance abuse center, etc.

Exception: A claimant who did not reside in a congregate care facility for the full tax year may claim a home heating credit based on a proration of the standard allowance. If the claim is for less than 12 months, only the standard credit method can be used.

IDENTIFYING INFORMATION

Enter claimant's:

1. Name(s) and address. Be sure to enter claimant's current address.
2. Social security number. If necessary, ask to see claimant's social security card.
3. Spouse's social security number, if applicable.
4. Enter the county code. Codes are listed on page 15 of the MI-1040CR-7 book.
5. Check the "Yes" box if claimant's heat costs are currently included in the rent or the heat service is in someone else's name.

Note: Do not mark through, cross out, etc., any box that does not apply to the claimant. Leave the box blank.

6. Check the box if the claimant wants his/her name referred for possible assistance.
7. Check "Yes" box or "No" box.

8. Enter age(s) if 60 or older; otherwise, leave blank.
9. Enter claimant's total heating cost for November 1, 2004 through October 31, 2005.
10. Check one box only (a through d), if applicable to the claimant; otherwise, leave it blank. Do not check box if joint return and only one spouse lives in a care facility.
11. Exemptions. Enter the number that applies on the appropriate lines:
- A Personal Exemption. (Claimant and spouse.)
- B Age 65 or older. (An exemption may be claimed for the taxpayer, spouse, and each dependent of the taxpayer who is age 65 or older on December 31, 2005.)
- C An exemption may be claimed for the taxpayer, spouse, and each dependent of the taxpayer who is:
- Deaf. (Includes being hearing-impaired to a degree that the primary method of receiving communication is through a sense other than hearing.)
 - Disabled or Blind. (Disabled - Totally and permanently disabled as defined under the Social Security Guidelines (42U5c416 of the U.S. Code). Blind - Defined under MCL 206.504 (1), as vision of 20/200 or less in the better eye with corrective lenses or peripheral field of vision of 20 degrees or less.)
- D Unemployment compensation. If 50 percent or more of claimant's combined adjusted gross income is from unemployment compensation, he/she may claim **one** additional exemption. If a U.S. 1040 is filed, adjusted gross income is the amount on line 37.
- E, F, G Enter number of children living with the claimant:
- An exemption **can** be claimed on the MI-1040CR-7 for any child(ren) living with the claimant..
 - An exemption **cannot** be claimed on the MI-1040CR-7 for any child(ren) **not** living with the claimant, even if the claimant pays most of the support and is entitled to an exemption(s) on the MI-1040 income tax return.
- H Enter the number of dependent adults other than claimant's spouse who live with claimant (including children over 18) **and for whom the claimant provided more than half the dependent's support.**
- I Add lines A through H.

12. Enter the name, relationship, Social Security number and age of the dependents claimed.

HOUSEHOLD INCOME

Household income is the total income received by a husband and wife or a single person. It includes income from all sources. It is the federal adjusted gross income plus income that is specifically excluded or exempted from federal tax. (*See Chart CC-41011 Income and Deductible Items, Summary Chart, page 76.*)

Example:

Mr. and Mrs. Smith have total wages of \$7,500 and interest of \$250. Federal adjusted gross income was \$7,750. Mrs. Smith receives child support of \$3,500 (which is not taxable) from a previous marriage. The total household income is \$11,250.

STANDARD CREDIT OR ALTERNATE CREDIT COMPUTATION: WHICH METHOD TO USE

A standard credit is computed based on the number of exemptions and total household income.

The alternate credit is computed based on the number of exemptions, total household income and total heating costs.

If the claimant **currently** does not contract to pay heating costs, use the standard credit.

If the claimant was a part-year resident or filing on behalf of a taxpayer deceased during 2005, use the standard credit.

If the claimant lives in a condominium and does not contract to pay for heating costs, use the standard credit.

If the claimant contracts to pay for heating costs, calculate both methods and claim the larger credit.

STANDARD CREDIT COMPUTATION FOR 2005

The standard credit computation is based on the number of exemptions and total household income.

First, the number of exemptions is used to determine the standard allowance from the table below:

Standard	Income <u>Exemptions</u>	<u>Allowance</u>	<u>Ceiling</u>
	0 or 1	\$ 369	\$ 10,529
	2	495	14,129
	3	620	17,700
	4	746	21,300
	5	871	24,871
	6	997	28,471
	Each over 6*	+ 126	+ 3,586

***Example:** If 8 exemptions are claimed, the standard allowance for 2005 is \$1,249.
(2 x \$126 = \$252 + \$997 = \$1,249)

IMPORTANT: Heating credits may be prorated for the tax year 2005. The proration percentage was not available at the time this manual was prepared.

Renter

If claimants are renters and heating costs are currently included in their rent, the standard home heating credit is reduced by 50%. An individual who currently pays the landlord separately for heat and not the heat provider must also reduce the credit by 50%.

Michigan Resident, Full Year

The following example illustrates how to compute the credit for full-year residents based on the above table, which can also be found on page 15 (Table A) of the MI-1040CR-7 booklet. If the eligible claimant's household income exceeds the income ceiling corresponding to the number of exemptions allowed on the Michigan return, the individual is not eligible for a credit.

Example:

John and Mary had household income of \$8,200. They were both 65 years old in 2005, which entitles them to 4 exemptions on the 2005 return.

Standard Allowance for 4 exemptions	\$ 746
Less 3.5% Household Income (.035 x \$8,200)	<u>-287</u>
Home Heating Credit	\$ 459 (subject to possible proration)

If John and Mary rented their homestead and heating costs were included in their rent, the credit would be computed as follows:

Home Heating	
Credit (From Above)	\$ 459
Less 50% of the Credit	
(.5 x \$ 459)	<u>- 229</u>
Reduced Home Heating Credit	\$ 230 (subject to possible proration)

Part-Year Resident or Deceased Claimant

The standard allowance is prorated and only the Michigan household income is used to compute the credit.

Example:

John and Mary Doe moved to Michigan on March 1. They have 4 children which entitles them to a total of 6 exemptions. Their Michigan income is \$14,800.

1. <u>No. of Days in Michigan</u>	x	Standard	=	Prorated Standard
365 Days		Allowance		Allowance
<u>306</u> = (84%)	x	\$ 997	=	\$837
365				
2. Prorated Standard Allowance				\$837
Less 3.5% of Household Income				
(.035 x \$14,800)				<u>-518</u>
Home Heating Credit				\$319 (subject to possible proration)

Note: If John and Mary Doe rented their homestead and heating costs were included in their rent, the home heating credit would be reduced by 50%.

Home Heating Credit	\$ 319
Less 50%	
(.5 x \$319)	<u>- 159</u>
Reduced Home Heating Credit	\$ 160 (subject to possible proration)

Adults Sharing Homestead

If a claimant **shares** a home but is **not** the owner or renter, he/she cannot claim a credit.

When people who are not spouses **own a home jointly**, each can claim a home heating credit based on individual household income. The same is true for renters. Determine the standard allowance from Table A in the instruction booklet, using the total number of exemptions in the home. Do **not** include Michigan special exemptions or dependent exemptions in this total. Divide the standard allowance by the number of claimants in the home.

Example:

Three unrelated men share an apartment. Each has a signed lease and pays 1/3 of the rent. The standard allowance for three exemptions is \$620. Each person must use a standard allowance of \$ ($\$620 \div 3 = \206) to compute his credit.

If eligible for a special exemption for age, blindness, disability or unemployment compensation, compute the standard allowance following this example.

Example:

Emma and Ruth (sisters) share a home. Emma is age 60 and Ruth is age 65. They file separate MI-1040CR-7 claims. They must first divide the \$495 standard allowance by 2. Emma's allowance is \$248. However, Ruth qualifies for an extra exemption for age. She adds to her share of the standard allowance of \$248, the difference between the standard allowance for three (\$620) and the standard allowance for two (\$495 as follows):

$$\$620 - \$495 = \$125 + \$248 = \$373 \text{ allowance for Ruth.}$$

Condominium Owner

The owner of a condominium who does not contract separately for heating costs but pays a maintenance fee, does not have to reduce the claim to 50%. Leave box 5 blank and attach a letter of explanation.

Alternate Credit Computation

The alternate credit computation is based on: number of exemptions, total household income, and total heating costs.

For 2005, a claimant's household income may not exceed the maximum income amount corresponding to the number of exemptions claimed on the return based on the following table:

<u>Exemptions</u>	<u>Maximum Income</u>
0 or 1	\$ 11,635
2	15,658
3 or more	18,433

Heating Cost

A claimant must provide his/her total heating costs for the 12 consecutive monthly billing periods ending in October of the tax year. A claimant should contact his/her enrolled heating provider for this information. If claimant is not a customer of enrolled heating fuel provider, use billing statements to calculate the total cost for the 12 consecutive months ending in October of the tax year. Enter the smaller of \$2,043 or the total cost.

Heating costs include amounts paid for fuel oil, electricity (if homestead has electric heat), gas, coal, wood or propane. The cost of wood is the amount spent during the 12 consecutive months ending sometime in October of the tax year or the fair market value if harvested from property owned by the claimant.

Michigan Resident, Full-Year

The following example illustrates how to compute the alternate credit for a full-year resident based on Table B on page 15 of the MI-1040CR-7 booklet.

Example:

James and Jean Smith have household income of \$10,000 and 3 exemptions. Their total heating cost is \$1,700. Their household income does not exceed the maximum income allowed for 3 exemptions.

Maximum Fuel Cost	\$1,687
Less 11% of Household Income (.11 x \$10,000)	<u>-1100</u>
Balance	587
Multiply by 70%	<u>x .70</u>
Home Heating Credit	\$ 411 (subject to possible proration)

DRAFTS OR WARRANTS

If, at the time of filing, the taxpayer pays his/her own heating costs, the taxpayer will receive an energy draft.

If, at the time of filing, the taxpayer's heat is included in rent, the taxpayer will receive a check.

For DHS recipients whose heat is provided by DTE Energy, Consumers Energy or SEMCO, the home heating credit will be sent directly to the heat provider. If the credit amount exceeded the heat account balance, check the box on line 43 to receive a refund from the heat provider for the overpayment, if eligible. If not eligible, the excess refund will be used toward future bills. If after nine months there is still refund money due, the heat provider will send the excess refund to the individual. Eligibility requirements are: 1) no outstanding balance with the heat provider **and** 2) no heat assistance received in the past 12 months.

CHAPTER 4

MICHIGAN INCOME TAX

MI-1040



CHAPTER 4 MICHIGAN INCOME TAX MI-1040

INTRODUCTION

VEHICLE DONATION CREDIT

Legislation passed in 2005 has resulted in the addition of one line to the “Nonrefundable Credits” section of the 2005 MI-1040. This credit, which is explained in more detail in Chapter 1 of this manual, provides for a nonrefundable credit for the donation of an automobile to a qualified charitable organization.

This credit is equal to 50% of the lesser of the fair market value as determined by the charitable organization or the value as determined in the National Automobile Dealers Association (NADA) guidebook, up to \$50 for a return filed by a single person or \$100 for a joint return.

Donors must provide form 4284 DONOR TAX CREDIT CERTIFICATE FOR DONATED AUTOMOBILE from a certified charitable organization to receive the credit. (See Chapter 1 for a list of qualified charitable organizations.)

VOLUNTARY CONTRIBUTION FOR CHILDREN’S TRUST FUND

Michigan income taxpayers can voluntarily contribute \$5 or more to the Children’s Trust Fund. Contributions are a key source for child abuse/neglect prevention in the local community. This contribution is reported on line 30 of the MI-1040.

FILING REQUIREMENTS

Every person who is a Michigan resident for all or part of the tax year is **required** to file a Michigan income tax return if any of the following are true:

1. Michigan Income Tax is due.
2. The taxpayer is due a refund.
3. A federal return is required.
4. The adjusted gross income (AGI) is greater than the personal exemption allowance on a Michigan Income Tax return.

For the year 2005, a taxpayer is allowed \$3,200 for each personal exemption.

Anyone eligible to be claimed as a dependent on someone else’s return may claim a \$1,500 exemption (\$3,000 on a joint return). This is true whether or not the other person claims the exemption.

To prepare a Michigan income tax return, you must have a copy of the taxpayer's federal income tax return. The U.S. 1040/1040EZ/1040A return contains information needed to prepare a Michigan income tax return. You will need to complete the Michigan MI-1040 return if the return is a U.S. 1040, 1040A or 1040EZ.

Taxpayers who file any of the following schedules or forms with their federal return must attach a copy to their Michigan income tax return and designate the location of any business activity or the location of any real property involved.

Schedule B	Interest and dividend income (if over \$5,000)
Schedule C or C-EZ	Profit or loss from business
Schedule F	Farm income and expenses (include address of farm)
Schedule E	Supplemental income and loss (losses from rents, royalties, partnerships, estates and trusts, and S corporations)
Schedule D and Form 4797	Capital and ordinary gains and losses (copies of federal forms 1040D and 4797 are required if taxpayer is filing M-10400D and MI-4797).
Form 2555	Foreign earned income
Form 3903 or 3903-F	Moving expenses
Form 6198	Computation of deductible loss from an activity described in Section 465(c)
U.S. Schedule R or 1040A Schedule 3	Credit for the elderly or totally and permanently disabled
Form 4868	Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.
Form 8829	Expense for business use of home

MI-1040

This chapter will refer to the "instructions." This means the instruction booklet used to prepare the MI-1040 Individual Income Tax return. Read the instruction booklet. The following information will recap and/or further explain the instructions in the booklet.

DUE DATE OF RETURN

Income tax returns are due on the 15th day of the fourth month following the close of the taxpayer's calendar or fiscal tax year.

EXTENSION

If a taxpayer receives an extension of time to file a federal income tax return (federal form 4868), attach a copy to the MI-1040 return. Treasury will extend the due date to the new federal due date.

If a taxpayer does not have a federal extension, complete form 4 APPLICATION FOR EXTENSION OF TIME TO FILE MICHIGAN TAX RETURNS **with the payment of tax due**. Upon receipt of form 4, Treasury will grant an automatic extension of time to file.

The taxpayer will not receive any notification of approval of a request for an extension.

An extension allows a taxpayer to file later than April 17, 2006. It does not allow a taxpayer to pay the tax later. If the tax is not paid by April 17, 2006, appropriate penalty and interest will be charged.

Do not file an extension request if claiming a refund.

Public Act 199 of 2004 amends the Income Tax Act of 1967 to allow an extension period consistent with that afforded by the Internal Revenue Service. To qualify, service men and women serving in combat zones will not need to file copies of federal extensions. Instead, they will simply need to print “combat zone” in red ink at the top of page 1 of their return.

IDENTIFICATION SECTION

Enter taxpayer's:

- Name(s).
- Current mailing address. If the taxpayer changes his/her address after filing a return/claim, the taxpayer should notify the Department **in writing** of the change of address.

SOCIAL SECURITY NUMBER(S)

Enter the Social Security number(s) on the return, even if using a label. Ask to see taxpayer's Social Security card(s). It is important to enter the taxpayer's correct Social Security number(s). If the claimant is married filing jointly or married filing separately, both Social Security numbers must be included on the form.

SCHOOL DISTRICT CODE

Obtain the code number from pages 45 and 46 of the instruction booklet.

STATE CAMPAIGN FUND

A taxpayer and/or spouse may designate \$3 of their taxes to go to the state campaign fund. This decision will not increase the tax liability or reduce the refund.

FILING STATUS

The filing status used on the MI-1040 must be the same as the filing status used for the federal return, with one exception: taxpayers who file “married filing separately” for federal purposes may file either “married filing jointly” or “married filing separately” on the Michigan return.

<u>Federal Status</u>	<u>State Status</u>
Single	Single
Head of Household	Single
Qualifying Widow(er)	Single
Married, Joint	Married, Joint
Married, Separate	Married, Separate
	or
	Married, Joint

RESIDENCY STATUS

Check box a, b, or c. If one spouse is a resident and the other spouse a nonresident or part-year resident, check the appropriate boxes. If taxpayer is a part-year resident or a nonresident, you must complete Schedule NR.

1. **Resident.** An individual is a Michigan resident if Michigan is his/her permanent home. A permanent home is the place an individual intends to return to whenever he/she goes away.
2. **Nonresident.** An individual who does not have a permanent home in a Michigan domicile. A nonresident must file a Michigan return if any income is attributable to Michigan. Some examples are wages earned in Michigan or income received from a business activity located in Michigan.
3. **Part-Year Resident.** An individual who had a Michigan home for part of the year. A temporary absence from Michigan, such as spending the winter in a southern state, **does not** make the taxpayer a part-year resident. A taxpayer is a part-year resident only if he/she moved his/her permanent home into or out of Michigan.

A taxpayer filing as a nonresident or part-year resident must:

1. Complete Schedule NR and attach it to the MI-1040 allocating all items of adjusted gross income between the states. (Attach appropriate schedules verifying adjustments.)

2. Prorate **personal** and **dependency** exemption amounts by dividing Michigan income by total income. Do not prorate the child care deduction.

Michigan has reciprocal agreements with Illinois, Indiana, Kentucky, Minnesota, Ohio and Wisconsin. Michigan residents pay only Michigan income tax on salaries and wages earned in these states.

A resident of a reciprocal state who earned wages in Michigan must file an MI-1040 to receive a refund of Michigan tax withheld. Be sure to indicate the taxpayer's state of residence.

EXEMPTIONS

The following are the exemption allowances for 2005:

1. \$3,200 for each exemption the taxpayer is allowed to claim on the federal return.
2. An additional \$2,000 for each Michigan special exemption.
3. A \$600 Child Care deduction for each child 18 and under claimed as a dependent by the taxpayer.
4. \$1,500 for a taxpayer who is single or married filing separately (\$3,000 if married filing jointly) and can be claimed as a dependent on someone else's return. (See the worksheet on page 10 of the MI-1040 instruction booklet).

Note: Part-year residents and nonresidents must prorate the exemption allowance using Schedule NR.

Special exemptions are:

1. A special exemption may be claimed for the taxpayer, spouse, and each dependent of the taxpayer who is age 65 or older on December 31, 2005.
2. A special exemption may be claimed for the taxpayer, spouse, and each dependent of the taxpayer who is disabled in any of the following ways:
 - A. Hemiplegic. An individual who has paralysis of one side of the body.
 - B. Paraplegic. An individual who has paralysis of the lower half of the body.
 - C. Quadriplegic. An individual who has paralysis of both arms and both legs.
 - D. Totally and permanently disabled. As defined under Social Security Guidelines (42U5c416 of the U.S. Code). Do not claim totally and permanently disabled if the taxpayer is age 65 or older.

- E. Blind. An individual who has a permanent impairment of both eyes of the following status: central visual acuity of 20/200 or less in the better eye, with corrective glasses, or central visual acuity of more than 20/200 if there is a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field of not grater than 20 degrees in the better eye.
 - F. Deaf. An individual whose primary method of receiving messages is through a sense other than hearing.
3. A single special exemption may be claimed if 50% or more of the taxpayer's AGI is from unemployment.

ADJUSTED GROSS INCOME

Enter the adjusted gross income (loss) from the U.S. 1040EZ, 1040A or 1040.

ADDITIONS TO ADJUSTED GROSS INCOME

The following are the most common additions and must be entered on Schedule 1: Additions to Income. Enter the total on line 7 and carry total to line 11 of the MI-1040.

- Interest and dividends from obligations or securities of states other than Michigan and their political subdivisions
- Losses from out-of-state businesses, partnerships, S corporations
- Losses from out-of-state rental of real property
- Out-of-state farm losses
- Losses from the sale or exchange of U.S. obligations
- Deduction for self employment tax on U.S. 1040
- Refund received from the termination of a MET contract
- Michigan portion of gain from MI-1040D or MI-4797
- Net loss included in AGI from Michigan gas and oil royalty interest or working interest.

SUBTRACTIONS FROM ADJUSTED GROSS INCOME

The following are the most common allowable subtractions and must be entered on Schedule 1: Subtractions From Income. Enter the total on line 20 and carry total to line 13 of the MI-1040.

- U.S. obligations (attach copy of U.S. Schedule B if over \$5,000) (*see Policy EC-41003, page 85*)
- Military pay and military retirement benefits (*see Policy EC-41001, page 83*)
- Pensions and retirement income from **Michigan governmental units** (to the extent included in AGI)
- U.S. Government (federal Civil Service) pension and retirement income (to the extent included in AGI)
- Other pension and retirement income (*see page 65, “PRIVATE PENSIONS”*)
- Retirement annuities that are paid for life to a senior citizen age 65 or over (*see limitation on page 65*)
- Interest and dividend and capital gains income received by a senior citizen age 65 or over (*see page 68 for limits and qualifications*)
- Proceeds and prizes won in Michigan regulated bingo, raffle or charity games to the extent included in adjusted gross income
- Refunds of Michigan city and state income taxes and homestead property tax credit received in 2005 (if included in AGI)
- **Taxable amount** of social security included in AGI from U.S. 1040, line 20b or U.S. 1040A, line 14b
- Wages and salaries earned by **resident of a reciprocal state**
- Income earned while a resident of a Renaissance Zone
- Income used to compute the credit for the elderly or totally and permanently disabled from federal Schedule R (attach a copy of federal Schedule R)
- Income attributed to another state (line 11 on Schedule 1: Subtractions from Income)
- Federal portion of capital gains from MI-1040D or MI-4797
- Gross income included in AGI from Michigan gas and oil royalty interest or working interest
- Contributions made to the Michigan Education Savings Program (MESP), not to exceed \$5,000 for a single return or \$10,000 for a joint return per year
- The amount of an advance payment under a MET contract during the tax year

- Distribution from a pension or retirement plan that is contributed to a qualifying charitable organization
- Qualified withdrawals from a Michigan Education Savings Plan that are included in AGI.

Do not allow the subtraction of any of the following:

- Income from U.S. Public Health Service
- Itemized deductions (federal Schedule A)
- Wages, salaries, and personal compensation earned in Michigan of a resident or nonresident, unless a nonresident of a reciprocal state
- Pensions, when taxpayer indicates that pension plan was discontinued and he/she did not meet the minimum requirements for pension under the terms of the plan
- Distributions from IRAs before the age of 59½, unless the taxpayer meets the guidelines of IRC 72(t)(2)(A)(iv)
- Unemployment benefits
- Wage continuation plans, when taxpayer does not indicate he/she is receiving disability pension benefits
- Pension disability benefits which have already been excluded
- Distributions from a deferred compensation plan received while a resident of Michigan
- Stock purchase plans that do not qualify as pension plans under the IRC
- Unfamiliar plans (review with supervisor)
- IRA, Keogh contributions (these are subtracted in arriving at AGI)
- Lottery winnings (unless receiving installment payments from prizes won before December 30, 1988).

PENSIONS AND RETIREMENT BENEFITS

A subtraction is allowed for qualifying distributions from retirement plans. Retirement plans include private and public employer plans, and individual plans, such as IRA's. To be considered a qualified distribution, several requirements must be met. For employer plans, an employee generally must have retired under the provisions of the plan, the pension benefits must be paid from a retirement trust fund and the payment must be made to either the employee or a surviving spouse. (Payments made to a surviving spouse are only deductible if the employee qualified for the subtraction at the time of death.)

Public Pensions

Public pensions are retirement or pension benefits received from a federal or Michigan public retirement system, or from a retirement system of a political subdivision of Michigan. Distributions from these retirement systems may be deducted to the extent included in AGI.

Private Pensions

Private pensions are retirement or pension benefits distributed from a pension trust qualified under section 401(a) of the Internal Revenue Code. The maximum deduction for a private pension is adjusted annually by the percentage increase in the U.S. Consumer Price Index. The maximum deduction for the 2005 tax year is \$39,570 for a single filer and \$79,140 for a joint return.

The following table outlines the current year's and prior years' maximum pension deductions.

<u>Tax Year</u>	<u>Single Return</u>	<u>Joint Return</u>
2001	\$36,090	\$72,180
2002	37,110	74,220
2003	37,710	75,420
2004	38,550	77,100
2005	39,570	79,140

Example: Cavan is retired and single. He has a State of Michigan pension of \$32,500 and a qualified private pension of \$12,050. His total pension deduction for 2005 is calculated as follows:

Maximum private pension deduction	\$ 39,570
Less: Public Pension	<u>-32,500</u>
Allowable private pension subtraction	\$ 7,070

Cavan's total pension subtraction is:	
Public	\$32,500
Private	<u>7,070</u>
Total	\$ 39,570

If Cavan's state pension was \$42,000, then he would be limited to a maximum deduction of \$42,000.

Examples of other distributions that qualify for the private pension deduction are:

- **IRA.** Distributions for individuals 59½ or older, distributions made on account of disability or death of the participant, and distributions described under Internal Revenue Code section 72(t)(2)(iii)(iv) (series of equal periodic payments made for life). Distributions made on account of the death of the participant may only be subtracted by a surviving spouse, and only if the distributions qualified as a subtraction for the participant at the time of death.
- **Senior Citizen Annuity.** Benefits received from a retirement annuity policy in which payments are made for life to a senior citizen.

For purposes of the retirement annuity subtraction, a senior citizen is defined in MCL 206.514(1) as an individual ...who is 65 years of age or older at the close of the tax year. The term also includes the unremarried surviving spouse of a person who was 65 years of age or older at the time of death."

- **401(k) or 403(b) Deduction** Distributions from a 401(k) or 403(b) plan are deductible to the extent that they represent distributions attributable to the employer's contributions or employee's contributions that were mandated by the plan. An employee's contribution required by the plan to elicit an employer match is considered to be mandated, and a distribution of such amounts may be subtracted as a 401(k) or 403(b) plan that allows the employee to set the amount of compensation to be deferred and does not prescribe retirement age or years of service do not qualify as retirement and pension benefits.

Example: Richard's employer established a 401(k) plan for its employees. The plan provides for a 50% employer match of employee contributions up to the maximum employer match of 3% of the employee's salary. The plan also allows the employees to make a additional unmatched contributions up to the annual percentage rate allowed by the Internal Revenue code. In 2005, Richard retired under the provisions of the retirement plan at age 60. At the time of his retirement, Richard received an annual statement from the 401(k) plan showing total contributions of \$450,000, of which \$100,000 were employer contributions. Richard took a distribution of \$24,000 in 2005, the year he retired.

Since the plan includes unmatched employee contributions, Richard must determine what amount of the \$24,000 distribution is attributed to the unmatched contributions. The plan called for a 50% employer match; therefore, \$200,000 of the employee contributions was required to elicit \$100,000 employer matching contributions. The remaining account balance of \$150,000 is unmatched employee contributions. The deductible amount of the 2005 distribution is determined as follows:

$$\$150,000/\$450,000 \times \$24,000 = \$8,000 \text{ (distribution attributed to unmatched distribution)}$$

$$\$24,000 - \$8,000 = \$16,000 \text{ (allowable pension subtraction)}$$

Note: All pension income **must** be included in household income except for the **original contributions** made by the taxpayer to the pension fund.

An individual having a pension from both a public and a private retirement system or an IRA distribution must reduce the maximum allowable subtraction for the private pension by any distribution taken for pension income from a public retirement system.

Roth IRAs

Contributions to a Roth IRA are subject to Michigan income tax to the extent the contributions are included in federal AGI.

A rollover from a regular IRA to a Roth IRA is subject to Michigan income tax to the extent the rollover is included in federal AGI. However, if an individual is 59½ when the rollover occurs, the individual may deduct the rollover as a pension deduction within the statutory limits for deducting pension income.

Also, a rollover from a regular IRA to a Roth IRA is subject to Michigan income tax for a taxpayer moving into and domiciled in Michigan to the extent the rollover is included in AGI. Conversely, a taxpayer moving from Michigan to another state is not taxed on the amount of a rollover from a regular IRA to a Roth IRA during the years the taxpayer is not domiciled in Michigan.

A qualified distribution from a Roth IRA is not subject to Michigan income tax because the distribution is not included in federal AGI.

A rollover from a regular IRA to a Roth IRA is included in household income in the year the income is included in the taxpayer's federal AGI. 2003 is the first year a qualified or tax free distribution may be made from a Roth IRA. The amount of a qualified distribution in excess of a taxpayer's contributions (rollover or regular contributions) must be included in household income. A nonqualified or taxable distribution from a Roth IRA must be included in household income to the extent it is included in a taxpayer's federal AGI. Investment losses from the liquidation of a Roth IRA are not allowed in household income.

Railroad Retirement and Pension Benefits

The taxable amount of Tier 2 income included in AGI may be subtracted as a public pension on the Michigan return. Tier 1 is taxable as social security on the federal return and should be subtracted as social security benefits to the extent in AGI.

SENIOR CITIZEN INTEREST, DIVIDEND AND CAPITAL GAINS SUBTRACTION (2001-2005)

This deduction may only be taken by a senior citizen age 65 or older. The deduction limits below must be reduced by the amount of pension subtraction taken by the taxpayer.

<u>Year</u>	<u>Single</u>	<u>Joint</u>
2001	\$8,048	\$16,095
2002	8,273	16,545
2003	8,408	16,815
2004	8,595	17,190
2005	8,828	17,655

TAX

The tax rate for 2005 is 3.9%.

For prior years use the following rates:

- 2004 - 3.95%
- 2003 - 4.0%
- 2002 - 4.1%
- 2000 - 2001 - 4.2%

TAX CREDITS (NONREFUNDABLE)

What Is a Nonrefundable Tax Credit

A tax credit is a direct reduction of the tax and is based on a certain formula. Any excess of the credits listed below over tax due is not refundable.

City Income Tax Credit

A city income tax credit is based on a percentage of tax paid to Michigan cities.

1. Use the city tax withheld amount per form W-2 WAGE AND TAX STATEMENT.

2. Adjust this amount by the prior year's refund or additional payment made (per city tax return). Do not include penalties or interest paid.

Example:

1. Joseph Timmon's 2005 W-2 shows \$202 of city income tax withheld. Mr. Timmons filed his 2004 city income tax return on April 12, 2005 and received a refund of \$50 on May 15, 2005. Mr. Timmons would use the following calculation to determine amount of city income tax subject to credit on the 2005 MI-1040:

2005 Withholding	\$202
2004 Refund Received in 2005	<u>-50</u>
City Tax Eligible for Credit Computation	<u><u>\$152</u></u>

2. Margaret O'Brian's 2005 W-2 shows \$345 of city income tax withheld. Mrs. O'Brian filed her 2004 city income tax return on April 20, 2005. She paid an additional tax of \$50 with the city return on April 20, 2005. Mrs. O'Brian would use the following calculation to determine her credit:

2005 Withholding	\$345
2004 Tax Paid in 2005	<u>+50</u>
City Tax Eligible for Credit Computation	<u><u>\$395</u></u>

Calculate the actual credit using the city income tax chart in the instruction booklet. The following are examples of city income tax credit calculation:

City Income Tax	Calculation	Allowable Credit
\$ 95	\$95 x 20%	\$19
125	20 + (\$ 25 x 10%)	23
185	25 + (\$ 35 x 5%)	27
325	25 + (\$175 x 5%)	34

Public Contributions Credit

The public contribution credit is an income tax credit for donations made to Michigan colleges and universities, Michigan public libraries, Michigan public broadcasting stations, Michigan Colleges Foundation, the State Art in Public Places Fund, State of Michigan Museum, and the State of Michigan for the Preservation of State Archives. (See section under line 20 in the instruction booklet.) The credit is limited to the lesser of:

- 50% of the contribution, or
- \$100 on a single return, or
- \$200 on a joint return.

Community Foundations Credit

The Community Foundations Credit is an income tax credit for donations made to certified charitable community foundations. A list of the eligible foundations can be found in the Michigan Income Tax instruction booklet. The credit is limited to the lesser of:

- 50% of the contribution, or
- \$100 on a single return, or
- \$200 on a joint return.

Homeless Credit

A resident is allowed a credit for **cash** contributions made to a qualifying shelter for homeless persons, a food bank, a food kitchen, or other entity whose **primary** purpose is to provide overnight accommodation, food, or meals to indigent persons. The credit is limited to the lesser of:

- 50% of the contribution, or
- \$100 on a single return, or
- \$200 on a joint return.

Out-of-State Tax Credit

A Michigan resident is allowed a credit for income tax paid to another government unit(s) on income earned while a resident of Michigan and taxed by Michigan.

Note: Credit is not allowed for tax imposed by another state on business income apportioned to Michigan.

For a **Michigan resident** the allowable credit for tax imposed by:

1. **Another state** is the lesser of:

- The actual tax imposed by the other state governmental unit on salaries/wages earned in that state, **or**
- The percentage of Michigan tax due on salaries/wages earned in the other state.

Tax Imposed

$$\frac{\text{Out-of-State Income Subject to Tax by Both States}}{\text{Total Income Subject to Michigan Tax (Line 14)}} \times \text{by Michigan (Line 17)}$$

To claim this credit, a return must be filed with the other state and a copy of the other state's return attached to the MI-1040.

Exceptions:

The credit is not allowed on salaries and wages earned in Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin, since this income is not taxable by these states (based on reciprocity agreement). However, the credit is allowed if they pay a city or county tax in a reciprocal state.

The credit is not allowed on salaries and wages which are subtracted as "Income Attributable to Another State" (by a part-year or nonresident) since no Michigan income tax is calculated on this income.

2. A **Canadian province** is the lesser of:

- The Michigan tax due on Canadian income taxed by Michigan, **or**
- The portion of provincial tax not claimed as credit for U.S. income tax on income derived from Canadian sources also subject to Michigan income tax.

To claim this credit, file Michigan form 777 RESIDENT CREDIT FOR TAX IMPOSED BY A CANADIAN PROVINCE. Instructions are included. Attach copies of Canadian federal Individual Income Tax Return, Canadian form T-4, U.S. form 1116 Computation of Foreign Tax Credit, and U.S. form 1040.

Michigan Historic Preservation Credit

Beginning with the 1999 year, the taxpayer is allowed a non-refundable credit of 25% of the qualified expenditures made for the rehabilitation of a historic resource pursuant to a rehabilitation plan. The rehabilitation plan and completed rehabilitation of the historic resource must be certified by the Michigan Historical Center.

Any unused portion of the credit may be carried forward for a maximum of 10 years.

For more information on how to qualify, visit the State Historic Preservation Office at www.michigan.gov/hal or call (517) 373-1630.

Michigan College Tuition and Fees Credit

A taxpayer may claim a credit against the income tax for tuition and fees paid on behalf of a student to a Michigan college or university. The amount of the credit is the lesser of 8% of the tuition and fees paid or \$375 for each student.

To be eligible for this credit the claimant must:

1. Be a Michigan resident.
2. Have adjusted gross income of \$200,000 or less.

3. Have paid tuition and/or fees on behalf of the student. Fees must be those that are paid uniformly by all students.

A list of the eligible colleges and universities will be printed on the back of Schedule CT .

The student(s) must be working on an undergraduate degree or certificate. Tuition and fees paid for graduate studies are not eligible for the credit. The costs of books, room and board, transportation, etc., are not considered to be tuition/fees and cannot be used when calculating this credit.

The Michigan College Tuition and Fees Credit is claimed on form MI-1040. The Department may require proof from the claimant to support the fees and tuition claimed in the calculation of this credit.

MILITARY FAMILY RELIEF FUND

Enter taxpayer's contribution on this line. The minimum contribution is \$1.

USE TAX

The taxpayer must check one of the two boxes and report the use tax obligation as follows:

- Box a - Check this box if the taxpayer has no use tax obligation or has previously paid the use tax.
- Box b - Check this box and compute the use tax due using the worksheet in the MI-1040 instruction booklet. Then carry the computed use tax to line 31 on form MI-1040.

TAX CREDITS (REFUNDABLE)

Homestead Property Tax Credit

This credit was covered in Chapter 2 of this Manual.

Farmland Preservation Tax Credit

This credit is for taxpayers who have entered into a Farmland Development Rights Agreement with the Department of Agriculture. To receive this credit, complete form MI-1040CR-5 and attach it to form MI-1040. Form MI-1040CR-5 is supplied to the taxpayer by the Department of Agriculture.

When a Farmland Preservation Tax Credit is claimed, the taxpayer must attach the following items to the MI-1040:

1. Property tax bills for 2005, with the agreement number listed on each of the tax bills and a receipt verifying payment of 2004 or 2005 property taxes. (Failure to show proof of payment will result in a check jointly payable to the taxpayer and the county treasurer.)
2. If ownership of the agreement is other than individual, appropriate distribution statement or partnership schedules.

Taxpayers who claim a farmland preservation tax credit may also claim a credit for a homestead property tax credit using the same taxes. However, total credits cannot exceed property taxes levied for the tax year.

Adoption Credit

The Adoption Credit allows an eligible taxpayer to claim an adoption credit against the tax imposed by the Act that is equal to the taxpayer's qualified expenses that are in excess of the amount of the credit for qualified adoption expenses the taxpayer claimed under Section 23 (Adoption Expenses) of the Internal Revenue Code (IRC) **or \$1,200** per child, whichever is less.

"Eligible taxpayer" is a taxpayer who has claimed a credit under Section 23 (Adoption Expenses) of the IRC for the same tax year in which the taxpayer is claiming an adoption credit on the Michigan income tax return.

"Qualified adoption expenses" are those expenses that can be claimed as a credit under Section 23 of the IRC for the same tax year.

If there are no excess federal adoption expenses or no federal adoption credit taken, there is no Michigan credit.

Income Tax Withheld

This appears on the taxpayer's W-2 statement under "Michigan Tax Withheld." Be sure to include withholding for each W-2. Complete Schedule W and attach it to the return.

Claim of Right Doctrine

The Michigan Income Tax Act allows a refundable credit for tax paid on income in an earlier year because the taxpayer thought he/she had an unrestricted right to it, but had to repay that amount in the current year. For example, if the taxpayer received the money in 2002 and had to repay it in 2005, he/she may claim a credit on the 2005 return.

The amount of the repayment must have been deducted on U.S. Schedule A or claimed as a credit on the U.S. 1040 in order to claim a credit on the Michigan return. If the repayment was deducted in arriving at adjusted gross income (AGI), no additional credit is allowed on the Michigan return.

To compute the credit, multiply the amount that was repaid in 2005 by the tax rate in effect in the year the money was received. Then add the amount of the credit to the Michigan tax withheld and include it on the withholding line on the MI-1040. Write the words "Claim of Right" next to the withholding line.

The following documents must be attached to the MI-1040: a schedule showing the computation of the Michigan credit, proof of the repayment, and the portion of the federal return showing the deduction or credit claimed under the claim of right.

Estimate Payments/Credit Forward

Ask the taxpayer if any estimate payments were made for the tax year or if there is a credit forward to be applied from the previous tax year.

Any taxpayer who expects his/her tax liability for the year to exceed \$500 after withholding and tax credits should file an MI-1040ES and make quarterly estimated payments for the year. Refer questions regarding estimates to your supervisor.

CHAPTER 5

ATTACHMENTS



Treasury Documentation

Identification CC-41011
Chart
Effective Date 9-1-2005
Replaces CC-41011 (4-1-2005)

Subject: Income and Deductible Items, Summary Chart**For:** Return Processing Division
Income Tax Section**Also See:**

Page 1 of 7

Key: N = Not included
Y = Included

AGI = Adjusted Gross Income
HHI = Household Income

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Alimony received	Y	Y	Y
Awards, prizes (in excess of \$300 for HHI)	Y	Y	Y
Bingo:			
First \$300 (Michigan)	Y	N	N
In excess of \$300 (Michigan)	Y	N	Y
First \$300 (from another state)	Y	Y	N
In excess of \$300 (from another state)	Y	Y	Y
Bonuses	Y	Y	Y
Business (Schedule C) income or loss:			
In Michigan (except Michigan oil and gas subject to severance tax)	Y	Y	Y
From another state and/or Michigan oil and gas subject to severance tax	Y	N	Y
Capital gains:			
100% taxable	Y	Y	Y
<p>Note: This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. See the MI-1040 instruction book for the year being reviewed.</p> <p>Senior citizen age 65 or older may subtract interest, dividends and capital gains included in AGI. The maximum deduction must be reduced by the pension subtraction. Allowable deduction is the smaller of the calculation or actual total interest, dividends and capital gains.</p>			
Gains on sale of principle residence	N	N	Y

 Approving Signature

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Casualty loss reimbursement in excess of loss of property	Y	Y	Y
Child support payments:			
Payer	Y	Y	Y
Receiver	N	N	Y
Chore service payments:			
Provider of service	Y	Y	Y
Receiver of service	N	N	N
Commissions	Y	Y	Y
Compensation for personal services rendered	Y	Y	Y
Damages for personal injury or sickness	N	N	Y
Deferred compensation	Y	Y	Y
Director's fees	Y	Y	Y
Disability income (limited)	Y	Y	Y
Dividends received (see Note under "Capital gains")	Y	Y	Y
Educational expenses paid by employer	N	N	Y
Employee business expenses, cash allowance or Reimbursement	Y	Y	Y
Energy assistance grants or tax credit	N	N	N
Estates or trusts income or loss	Y	Y	Y
FIP benefits (see "Public Assistance")			
Farm income or loss from:			
Michigan	Y	Y	Y
Another state	Y	N	Y
Farm portion of homestead property tax credit	Y	Y	N

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Farmland preservation tax credits	Y	Y	Y
Foreign earned income exclusion	N	N	Y
Foster care payments	N	N	Y
<hr/>			
Gambling:			
Winnings (in excess of \$300 for HHI)	Y	Y	Y
Losses:			
Professional gamblers	Y	Y	Y
All others	N	N	N
Gifts - cash:			
First \$300	N	N	N
Excess over \$300	N	N	Y
Government grant for home repair or improvement	N	N	N
Government payments made directly to educational institutions or housing projects	N	N	N
<hr/>			
Health, life (unless benefits exceed \$50,000), and accident insurance premiums paid by employer	N	N	N
Homestead property tax credits	Y	N	N
Housing allowance for clergy	N	N	Y
<hr/>			
Inheritance bequest or devise from:			
Non-spouse	N	N	Y
Spouse	N	N	N
Interest received on:			
Banking, savings and loan assoc., etc., accounts	Y	Y	Y
Insurance dividends	Y	Y	Y
Land contracts	Y	Y	Y
Money market and savings certificates	Y	Y	Y
Municipal bonds issued by another state	N	Y	Y
Municipal bonds issued by Michigan	N	N	Y
Tax refunds	Y	Y	Y
U.S. Obligations (only specific agencies exempt)	Y	N	Y

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Interest taxable to Michigan (see Note under “Capital gains”)			
Life insurance proceeds paid to:			
Non-spouse	N	N	Y
Spouse	N	N	N
Life insurance - cash in amount in excess of premiums	Y	Y	Y
Living expenses of claimant paid by another person	N	N	Y
Loans received or paid	N	N	N
Long-term disability payments received (if all or part of premium paid by employer)	Y	Y	Y
Lottery:			
100% taxable (in excess of \$300 for HHI)	Y	Y	Y
Installment winners of Michigan lottery who won prior to 12-30-88	Y	N	Y
Lump sum distribution included in 10-year averaging (for individuals born before 1936)	N	N	Y
Medicare payments	N	N	N
Military wages or retirements	Y	N	Y
Moving expenses, reimbursement:			
Moving into Michigan	Y	Y	Y
Moving out of Michigan	Y	N	N
Net operating loss deduction for household income (limited to federal modified taxable income)	Y	Y	Y
Partnership income or loss:			
In Michigan (except Michigan oil and gas subject to severance tax)	Y	Y	Y
From another state and/or Michigan oil and gas subject to severance tax	Y	N	Y

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Private pensions (e.g., qualified annuity plans) up to amount allowed as subtraction for claimed year	Y	N*	Y
Private pensions or qualified annuity plans in excess of amount allowed as subtraction for claimed year	Y	Y	Y
Public Pensions (Federal, State or Municipal Governments)	Y	N	Y
Public assistance payments from Department of Human Services			
FIP paid to grandparents for care of grandchildren	N	N	Y
FIP paid to parents for children	N	N	Y
Public health officer's income:			
Michigan resident	Y	Y	Y
Nonresident	Y	N	N
Railroad sick pay	Y	Y	Y
Railroad Tier 1 retirement benefits:			
Taxable amount	Y	N	Y
Nontaxable portion	N	N	Y
Railroad Tier 2 retirement benefits	Y	N	Y
Railroad unemployment benefits	N	N	Y
Refunds - Michigan state and local income tax	Y	N	N
Relief in kind	N	N	N
Rents and royalties income or loss:			
In Michigan (except Michigan oil and gas royalties subject to severance tax)	Y	Y	Y
From another state and/or Michigan oil and gas royalties subject to severance tax	Y	N	Y
Retirement benefits (see "Private and Public pensions . . .")	Y	N	Y

* This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. See the MI-1040 instruction book for the year being reviewed.

<u>Income Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
S corporation business activity:			
In Michigan (except Michigan oil and gas subject to severance tax)	Y	Y	Y
In another state and/or Michigan oil and gas subject to severance tax	Y	N	Y
Scholarship, stipends, education grants, GI bill benefits	N	N	Y
Severance pay	Y	Y	Y
Sick pay	Y	Y	Y
Social Security benefits:			
Taxable amount	Y	N	Y
Nontaxable portion	N	N	Y
Stipends received for benefit of grantor (interns, resident doctors)	Y	Y	Y
Strike pay	Y	Y	Y
Supplemental gain (form 4797)	Y	Y	Y
Supplemental unemployment benefits	Y	Y	Y
Surplus foods	N	N	N
Unemployment compensation	Y	Y	Y
Unemployment compensation from railroad	N	N	Y
Vacation allowance	Y	Y	Y
Veterans Administration benefits	N	N	Y
Wages, salaries, tips	Y	Y	Y
Worker's Compensation	N	N	Y

<u>Deductible Items</u>	<u>AGI</u>	<u>Michigan Taxable Income</u>	<u>HHI</u>
Alimony paid	Y	Y	Y
Capital losses:			
Short-term, maximum \$3,000 (HHI, maximum \$3,000)	Y	Y	Y
Long-term, maximum \$3,000 (HHI, maximum \$3,000)	Y	Y	Y
Casualty Loss:			
Claimed as itemized deduction	N	N	N
Claimed as business deduction	Y	Y	Y
“Claim of Right” (repayment of items previously included in income) taken as:			
Itemized deduction (Michigan credit taken)	N	N	N
Federal tax credit (Michigan credit taken)	N	N	N
Deduction reflected in AGI	Y	Y	Y
Health and accident insurance paid by taxpayer for self and family	N	N	Y
IRA or Keogh (payments to)	Y	Y	Y
Moving Expenses:			
Moving into Michigan	Y	Y	Y
Moving out of Michigan	Y	N	N
Penalty on early withdrawal of savings	Y	Y	Y
Self-employment tax deduction	Y	N	Y
End			

TREASURY DOCUMENTATION**Subject**

Military Pay, Allowable IT Subtractions

ForReturn Processing, Customer Contact
and Technical Services Divisions**Also See**

JC-41017, 29

IdentificationEC-41001
Policy**Effective**

10-1-2002

Page 1 of 2

Replaces

EC-41001 (1-1-1998)

Note: Compensation paid from federal appropriations, including retirement benefits, for military services in the armed forces is exempt from Michigan income tax and is deductible from adjusted gross income (AGI) by the recipient to the extent it is included in federal AGI. Employee business expenses attributable to military income shall reduce the subtraction for military income.

In the following cases, **income qualifies** as a subtraction for military pay:

1. Second set of digits of the employer identification number (EIN) on the W-2 wage and tax statement begin with 997, 998 or 999.

Three exceptions when EIN 35-9970000 would be taxable are:

- Payment to active or reserve member for a Do It Yourself (DITY) household move associated with a permanent change of station.
- Student loan payment made on behalf of a member to a lending institution.
- Separate W-2 is issued for these payments. Income is not subtracted out as military if there is a second W-2 issued under EIN 35-9970000 and taxpayer is not subtracting it out.

2. W-2 indicates:

- A particular unit, company (C.O.) or battalion (B.N.)
- A particular navy ship (U.S.S.) or Air Force Base (A.F.B.)
- "Disbursing Officer, Navy Finance Center, Cleveland OH"
- "Air Force Accounting and Finance Center, Denver, CO"
- "DFAS, ATTN: DFAS-IN/FJC" (EIN 35-1819323).

Note: If the EIN is 35-1819323, the entire amount of wages in box 1 qualifies for a subtraction on the Michigan return even if box 14 indicates a different amount of "active duty pay." Box 14 is information for the Social Security Administration (SSA) and SSA's definition of active pay is different than the State's.

3. Reserve duty pay when called to duty by the President.
4. Military retirement pay.

5. National Guard pay **only** for the following:
 - Weeknight and regular weekend drills
 - Summer camp
 - Pay received for riot duty **while nationalized by the President**.
6. Public Health Officers - only those assigned to the Coast Guard or who are **nonresidents** of Michigan.

Note: Federal law prohibits any state other than the state of residence from taxing the wages of Public Health Officers from Health and Human Services.

In the following cases, **income does not qualify** as a subtraction for military pay:

1. W-2 forms from an Officer's Open Mess or similar establishment.
2. W-2 from the military shows an employer number identifying a civilian employee (i.e., taxable wages paid a civilian employee).
3. Wages paid to employees of the United States Property and Fiscal Office (USPFO).

Note: Michigan tax is typically withheld which is the best indication that it is civilian pay. If a taxpayer disputes the decision that the pay is civilian pay, request a copy of taxpayer's latest "Defense Finance and Accounting Service Military Leave and Earnings Statement" to verify that taxpayer is in the military.

4. W-2 issued from DFAS-Pensacola, Florida is military pay issued from this employer and is not an allowable subtraction as it is technical pay or other pay that is not active duty pay.
5. National Guard pay for the following:
 - Riot duty when called to duty by **the Governor** (paid by the State).
 - Full-time employment for which the taxpayer received a W-2 from the State.
6. Reserve duty pay when called to duty by **the Governor** (paid by the State).
7. Resident Public Health Officers (employees of Health and Human Services) for other than the Coast Guard.

Note: Residency of military personnel and Public Health Officers remains with the state from which they entered the service unless they have filed a declaration with the service to change it.

End

TREASURY DOCUMENTATION**Subject**

IT Federal Obligations, Taxability

ForReturn Processing Division
Income Tax Section**Also See**

JC-41029

IdentificationEC-41003
Policy**Effective**

5-1-2002

Page 1 of 3

Replaces

EC-41003 (1-1-1998)

The following U.S. Obligations are exempt from Michigan Individual Income Tax:U.S. Government Bonds
U.S. Government CertificatesU.S. Savings Bonds – Series E, F, G and H
U.S. Treasury Bills and Notes**Obligations issued by the following U.S. Agencies are exempt:**Banks for Cooperatives
Central Banks for Cooperatives
Commodity Credit Corp.
Consolidated Bonds
Consolidated Discount Notes
Consolidated System Bond, Series L
Consolidated Systemwide
Discount Notes
District of Columbia
Farm Credit Banks
Farmers Home Corp.
Federal Deposit Insurance Corp.
Federal Farm Credit Bank
Federal Farm Loan Corp.
Federal Farm Mortgage Corp.
Federal Financing Banks
Federal Home Loan Banks
Federal Housing Administration
(General Insurance Fund Debentures)Federal Intermediate Credit Banks
Federal Intermediate Credit Corp.
Federal Land Banks
Federal Land Banks Association
Federal Savings and Loan Insurance
Corporation
Home Owner's Loan Corp.
Joint Stock Land Banks
Maritime Administration
Production Credit Association
Small Business Administration
Student Loan Marketing Association
Tennessee Valley Authority (bonds only)
U.S. Housing Authority
U.S. Maritime Commission
U.S. Possessions (obligations Puerto Rico,
Virgin Islands, etc.)
U.S. Postal Service (bonds)**The following debentures issued under the General Insurance Fund are exempt:**Interest from debentures issued under War Housing Insurance Law
Interest from debentures to acquire rental housing projects
Interest from Armed Service Housing Mortgage Debentures

Subject

IT Federal Obligations, Taxability

IdentificationEC-41003
Policy**Effective**

5-1-2002

Page 2 of 3

The following General Services Administration Public Building Trust Participation Certificates are exempt:

1st series A through E
2nd series F
3rd series G
4th series H and I

The Guam Obligations issued by Government of Guam are exempt.

Notes: Income from **exempt** U.S. Obligations received by the taxpayer through Money Market Funds, Money Market Certificates, Mutual Funds, Trusts, etc., generally qualifies for a subtraction.

Treasury Bill Futures are **not** U.S. obligations.

The following U.S. Obligations are taxable:

Government National Mortgage Association (debentures, notes and participation certificates)
Federal National Mortgage Association participation and other instruments
Federal Home Loan Mortgage Corporation, mortgages and other securities
Federal Housing Administration (debentures, notes and participation certificates)
U.S. Department of Agriculture Farmers Home Administration Insured Notes
Export-Import Bank of Washington, D.C.
International Bank of Reconstruction and Development (World Bank)
Participation Certificates issued by the Federal National Mortgage Association
Building and Loan Associations
Credit Union Share Accounts
District of Columbia Armory Board
Federal Savings and Loan Associations
Panama Canal Bonds
Philippine Bonds
U.S. Government Insured Merchant Marine Bonds

Subject

IT Federal Obligations, Taxability

IdentificationEC-41003
Policy**Effective**

5-1-2002

Page 3 of 3

Other examples of taxable interest from federal obligations:

Refunds of federal income tax

Interest-bearing certificates issued in lieu of tax-exempt securities, such income losing its identity when merged with other funds

Debentures issued to mortgages or mortgages foreclosed under the provisions of the National Housing Act

Promissory notes of the federal instrumentality

Federal Home Loan Time deposits

FSLIC secondary reserve prepayments

Government National Mortgage Association participation certificates and on Federal Home Loan Mortgage Corporation participation certificates in mortgage pools

U.S. Postal Service Certificates and savings deposits

Participating loans in the Federal Reserve System for member banks (Federal Funds)

Farmer's Home Administration

End

Subject

IT Allocation of Income

For

Return Processing Division
Income Tax Section

Also See

Identification EC-41008
Policy

Effective 3-1-2004

Page 1 of 2

Replaces
EC-41008 (3-1-2001)

<u>Type of Income</u>	<u>Allocate To</u>
Salaries, wages, tips, director fees, commissions, etc.	State where earned and state of residence. A Michigan resident may be entitled to a credit if income also taxed by another state. Exception: Residents of reciprocal states are not taxed by Michigan on this type of income and vice versa.
Deferred compensation:	
1. Principal portion	State of residence when received. (See Revenue Administrative Bulletin 1997-2 for tax years prior to 1996.) State of residence when received.
2. Interest portion	
Dividends and interest	State of residence. Exception: If earned by a partnership or S corporation, allocate or apportion to the state of the business activity if business income.
Business income or loss (Schedule C)	State where business activity takes place. Business income attributable to Michigan and one or more states must be apportioned. (See Schedule H.)
Partnerships, S corporations or other flow-through entities income or loss:	
1. Ordinary business income or loss (Schedule E)	State where business activity takes place.
2. All other business income or loss	State where business activity takes place.
3. Nonbusiness income or loss	State of residence.

<u>Type of Income</u>	<u>Allocate to</u>
Capital gain or loss (Schedule D or 4797):	
1. Intangible personal property such as stocks, bonds, commodities, futures, etc.	State of residence unless business income.
2. Section 1231	State where property is located unless business income.
3. Real property	State where real property is located.
Pension, retirement, annuity, qualifying IRA distributions and Social Security benefits	State of residence when received.
Rent and royalty income or loss (Schedule E):	
1. Tangible and intangible personal property	Michigan if utilized in this state, or if a resident and not taxable in the state where property is utilized.
2. Real property (includes royalties for minerals which came from real property such as oil and coal)	State where real property is located.
Estate or trust income or loss	Look to type and source of income and apply guidelines in this chart.
Farm income or loss (Schedule F)	State where farm is located.
Unemployment compensation	State of residence.
Alimony, prizes, state and local refunds, and gambling winnings	State of residence when received. (Michigan Lottery won by nonresidents is taxable to Michigan.)
Prizes won after September 30, 2003 from casinos or licensed horse tracks located in Michigan	State where casinos and horse tracks are located.

End



JOHN ENGLER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

DOUGLAS B. ROBERTS
STATE TREASURER

REVENUE ADMINISTRATIVE BULLETIN 2002-2

Approved: March 28, 2002

INDIVIDUAL INCOME TAX – HOMESTEAD PROPERTY TAX CREDIT PERMANENT RESIDENT OF A NURSING HOME

(Replaces Revenue Administrative Bulletin 1988-21)

RAB 2002-2. This Revenue Administrative Bulletin (RAB) describes a permanent nursing home resident's entitlement to a homestead property tax credit when substantially all or a part of the charges for rent, food, nursing or other services are paid directly to the nursing home by agencies of the state or federal government.

Entitlement to a Homestead Property Tax Credit

An individual natural person who was domiciled in Michigan for at least six months of the calendar year may file for a homestead property tax credit based on property taxes levied or rent paid on a Michigan homestead owned or rented as the claimant's principal residence. MCL 206.520(2) and Department of Treasury Rule, 1979 AC, R 206.28 provide that a claimant who rents or leases a homestead may claim a similar credit.

Property Taxes Eligible to be Claimed for the Credit

MCL 206.520(1) provides that the property taxes that may be used to calculate a property tax credit are the taxes on a homestead that are deductible for federal income tax purposes pursuant to Section 164 of the Internal Revenue Code of 1986, or the property taxes that would have been deductible if the taxpayer had elected to itemize his or her deductions. In computing the credit, "homestead property taxes" are the taxes levied on property and based on the taxable value of the homestead, including collection fees, or 20 percent of the gross rent paid. [MCL 206.520(2)]

The property taxes used for the credit computation may not be greater than the amount levied for one year and, pursuant to MCL 206.530(2), will be subject to further adjustment if the homestead is occupied less than a 12 month period.

Computation of Credit

The credit is equal to 60 percent of the property taxes levied on the homestead or property taxes paid in rent that exceed 3.5 percent of the claimant's household income, and subject to further reduction if the claimant receives aid to dependent children and/or has household income in excess of \$73,650.00 (as indexed). [MCL 206.520(8) and MCL 206.522(1)(a)]

MCL 206.522 describes other categories, for example senior citizen, that a claimant may qualify to file under for the credit. Generally, these other categories will entitle him or her to a larger percentage of the property taxes as a credit. The claimant may only elect one category in filing a claim. The total credit allowed to a claimant in a taxable year on or after December 31, 1975, may not exceed \$1,200.00. [MCL 206.520(16)]

A permanent resident of a nursing home may not use in the computation on a property tax credit all or a portion of his or her “allocable share” of property taxes, as defined in Department of Treasury Rules, 1979 AC, R 206.28(6), if the rent, food, nursing or other services are paid directly to the nursing home by an agency of the state or federal government.

This claimant is considered to have paid none of the property taxes in rent to the nursing home if he or she has no responsibility for rent, food and other nursing home charges. Only a renter or lessee may claim a property tax credit on property that he or she has contracted to rent or lease. Pursuant to MCL 206.520(1), the property taxes eligible for the credit must be the same property taxes that could have been deducted under Section 164 of the Internal Revenue Code of 1986. A cash basis taxpayer cannot claim a deduction of real estate taxes in excess of those property taxes which he or she has not paid.

Therefore, if all the charges for a permanent nursing home resident are paid directly to the nursing home by an agency of the state or federal government, the resident has not paid any property taxes and may not claim a property tax credit based on the “allocated share” of property taxes designated to a person residing in a nursing home.

Summary

A nursing home resident cannot claim as his or her “allocable share” of property taxes any sum that exceeds the total nursing home charges paid by him or her. In determining the total nursing home charges paid by the resident, any charges paid directly to the nursing home by state or federal agencies will be deducted from the total charges paid for the year from all sources. Where the total charges paid by the resident are less than the “allocable share” of property taxes, all payments made by him or her are designated as payment of taxes. And, where the total charges paid by the resident are equal to or greater than the resident's “allocable share,” the claimant may include the “allocable share” of property taxes in the computation of his or her credit.

Example: Nursing home charges for Resident A were billed in a lump sum of \$10,000 for rent, food, and other nursing services to the State of Michigan. Of that sum, \$9,600 was paid directly to the nursing home by the state. The resident paid the balance of \$400.00 due.

The resident's “allocable share” of property taxes on the facility, based on 100 beds and real property taxes of \$50,000.00, is \$500.00. However, since the total charges paid by him are less than his “allocable share,” only the lesser figure of \$400.00 may be utilized by the resident for calculating a property tax credit.

In computing the household income of a nursing home resident, any charges paid directly to the nursing home by an agency of the state or federal government are not required to be considered. See Department of Treasury Income Tax Rules, 1979 AC, R 206.4(2)(b). This Rule provides that “household income” does not include “[r]elief in kind by a governmental unit such as medicaid payments to a nursing home or doctor, or rent paid, in whole or in part, directly to the landlord....”



JOHN ENGLER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

DOUGLAS B. ROBERTS
STATE TREASURER

REVENUE ADMINISTRATIVE BULLETIN 2002-4

Approved: March 28, 2002

INDIVIDUAL INCOME TAX – HOMESTEAD PROPERTY TAX CREDIT WHEN ADULTS OTHER THAN HUSBAND AND WIFE SHARE HOMESTEAD

(Replaces Revenue Administrative Bulletin 1988-24)

RAB 2002-4. This Revenue Administrative Bulletin (RAB) explains who is considered an eligible claimant for the purpose of claiming a homestead property tax credit under MCL 206.520(1) and when a homestead is occupied by more than one adult who are not related as husband and wife.

To qualify as a claimant for homestead property tax credit purposes, the claimant must be an individual natural person who was domiciled in this state during at least six months of the calendar year preceding the year in which the claim is filed. Claimant includes a husband and wife if they file a joint State income tax return. [MCL 206.504(2)] A claimant must own or lease a homestead to qualify for the credit. [MCL 206.520]

Owner Defined

An owner is defined in Department of Treasury Rule, 1979 AC, R 206.27(1) as a natural person who owns his home or is:

- (a) purchasing a homestead under a mortgage or land contract, or
- (b) purchasing a dwelling on leased land, or
- (c) a tenant stockholder of a cooperative housing corporation, or
- (d) holding a life lease in a homestead previously sold, or
- (e) the sole occupant of a homestead where he is a joint owner.

Subsection (2) of Rule 206.27 provides that "[c]laimants not related as husband and wife, who jointly own and occupy the same dwelling, shall file separate claims on their prorated share of the taxes."

Renter Defined

A renter is defined in MCL 206.512(4) as "... a person who rents or leases a homestead."

Property Taxes Eligible to a Renter

A renter or lessee is entitled to use 20% of the gross rent paid during the tax year as property taxes eligible for the credit. However, the amount of gross rent paid by the lessee may not always be used to calculate the credit. The gross rent must be the amount the renter or lessee contracts to pay the landlord or the amount established in an arm's length transaction with the landlord. The Department will adjust the amount of gross rent if it determines that the amount is excessive.

Shared Homestead

In some cases, more than one eligible renter or lessee may occupy the same homestead. Each claimant is entitled to compute a homestead property tax credit based upon 20% of the gross rent he or she contracts to pay the landlord or agrees to pay the landlord based on an arm's length transaction.

An individual who does not have a contract to rent or cannot establish that an arm's length transaction exists between him or her and the landlord will be ineligible to claim a homestead property tax credit.

Examples:

An individual owns and occupies a homestead with her two adult children. Her children do not pay a specific rental or room and board charge, but sporadically contribute small sums of money to her. Since the children are not owners of the home nor do they contract to pay rent, the mother is entitled to claim all of the property taxes in the calculation of her homestead property tax credit.

Two unrelated individuals are sharing a rented home. Only one of these individuals has signed a rental agreement with the lessor. Each person pays one-half of the contract rent. The Department requires the non-contracting tenant to be able to prove her payments are bona fide if she claims a homestead property tax credit. [MCL 206.508(1)]

SUPPLEMENT RE: FIP CHILD SUPPORT ANNUAL STATEMENTS

This supplement is to be used to determine the correct amount of child support and FIP received during the year.

Quarterly Statements are now sent to clients indicating the amount of child support received each year. The fourth quarter statement from the Office of Child Support at the Department of Human Services (DHS) includes the annual figures for the year.

Attached are three examples to assist you in preparing the Michigan Homestead Property Tax Credit for FIP recipients who receive part of their benefit from child support payments.

Under the heading "Totals for 2005" there are five columns that may or may not have figures. Please read the explanation for each column.

Current Amount. The amount of child support paid by the noncustodial parent to Friend of the Court. Friend of the Court in turn remits the money to the State for reimbursement of the FIP paid to the custodial parent.

Arrearage amount. The amount of child support paid by the noncustodial parent to the Friend of the Court for arrearage. Friend of the Court in turn remits the money to the State for reimbursement of FIP either for prior years or for previous reporting periods in the same year.

Participation Payments Paid. A payment made directly to the FIP client. It is not in the total reflected on the FIP Annual Statement. It is included in the current amount on the Office of Child Support Statement. You must add this figure to the FIP Annual Statement to determine total FIP received.

Reimbursements Paid. A payment made directly to the FIP client. It is not in the total reflected on the FIP Annual Statement. It is included in the current amount on the Office of Child Support Statement. You must add this figure to the FIP Annual Statement to determine total FIP received.

Refunds Paid. A payment that goes back to the Friend of the Court and they determine whether it goes to the custodial or noncustodial parent. You must add this figure to the FIP Annual Statement unless the FIP client can provide proof that the payment was **not** received.

To determine the total received, add the total on the FIP Annual Statement to the Rebates Paid, Reimbursements Paid and Refunds Paid on the Office of Child Support Statement. This is the total derived from Friend of the Court and FIP.

Child Support is the sum of the Current Amount and the Arrearage Amount.

If the Child support figure is greater than the total received (FIP + Participation Payments Paid + Reimbursements Paid + Refunds Paid), limit the child support to the total received figure and enter on line 19 as Child Support.

If the Child support figure is less than the total received (FIP + Participation Payments Paid + Reimbursements Paid + Refunds Paid), enter the child support on line 19 and the difference on line 23 as FIP and other DHS benefits.

SAMPLE 1

The claimant received a 2005 DHS Annual Statement reflecting \$4,800 for total FIP paid. The statement from the Office of Child Support reflects the following:

Current Amount	\$3,100
Arrearage Amount	1,900
Participation Payments Paid	600
Reimbursements Paid	37
Refunds Paid	0

To determine amount to be included in household income:

FIP per Annual Statement	\$4,800
Participation Payments Paid	600
Reimbursements Paid	37
Refunds Paid	<u>0</u>
Amount to be Included in Household Income	\$5,437

To determine child support:

Current Amount	\$3,100
Arrearage Amount	<u>1,900</u>
Total Child Support	\$5,000

To determine FIP income:

Household Income (Above)	\$5,437
Child Support (Above)	<u>-5,000</u>
Total FIP	\$ 437

CLIENT ANNUAL STATEMENT
State of Michigan Department of Human Services

SAMPLE 1

TOTALS FOR TAX YEAR
2005
CLIENT ID NUMBER
999999
SOCIAL SECURITY NUMBER
999-99-9999

FIP/SA \$4,800
RAP/REP
TOTAL PAID \$4,800

Ma Sample
1000 Main St.
Detroit, Mi. 48211

Listed above is the cash public assistance paid to you or on your behalf by the Department of Human Services (DHS) for the tax year show.

- The FIP/SA Total includes Family Independence Program (FIP) and State Disability Assistance (SDA) payments and vendor payments for shelter, heat and utilities.
- The RAP/REP Total includes Refugee Assistance and Repatriate Assistance Program payments and vendor payments for shelter, heat and utilities.

You may be eligible for special tax credits from the State of Michigan. If you file for tax credits, you must report the amount shown on this statement on the tax credit application. Do not attach this statement to the tax credit application because Treasury does not require a copy. You will receive a separate statement of the total child support sent by the Friend of the Court to the State of Michigan. You may need to include this child support statement to file for tax credits.

Visit your nearest Treasury office for further information and help regarding the tax credits or call Treasury toll free at 1-800-487-7000. Tax credit applications are available at all Treasury offices.

Report any Income Tax refund or Special Tax Credit you receive to your worker.

This statement is for information purposes only.

The Department of Human Services will not discriminate against any individual or group because of race, sex, religion, age, national origin, color, height, weight, marital status, political beliefs or disability. If you need help with reading, writing, hearing, etc., under the Americans with Disabilities Act, you are invited to make your needs known to a DHS office in your county.

SAMPLE 1

OFFICE OF CHILD SUPPORT
P.O. BOX 30037 LANSING MI 48909

REPORT DL-090
PAGE 1

STATE OF MICHIGAN
FAMILY INDEPENDENCE AGENCY
CHILD SUPPORT QUARTERLY STATEMENTS
LEGAL AUTHORITY 45 CFR 302.54
QUARTER ENDING 12/31/05

Ma Sample
1000 Main St.
Detroit, Mi 48211

*** INFORMATIONAL ONLY ***
*** NO ACTION NEEDED ***
*** SAVE FOR YOUR RECORDS ***

LISTED BELOW ARE CHILD SUPPORT COLLECTIONS SENT TO FIA AS REPORTED BY THE FRIEND OF THE COURT (FOC) FOR THE FIP CASE NUMBER ABOVE. THE STATE OF MICHIGAN MAY CONTINUE TO RECEIVE ARREARAGE COLLECTIONS, EVEN AFTER FIP BENEFITS STOP, UP TO THE TOTAL AMOUNT OF FIP RECEIVED BECAUSE YOU ASSIGNED TO FIA YOUR RIGHTS TO SUPPORT PAYMENTS WHEN YOU SIGNED YOUR ASSISTANCE APPLICATION.

*** COLLECTIONS REC'D BY FIA THIS QUARTER ***

COLLECTION MONTH/YEAR	FRIEND OF THE COURT	COURT ORDER NUMBER	CURRENT AMOUNT PAID	ARREAR AMOUNT PAID
	Wayne	XXXXXX	3,100	1,900

*** PAYMENTS MADE FROM COLLECTIONS SENT TO FIA PROCESSED THIS QUARTER ***

COLLECTION MONTH/YEAR	PAYMENT DATE	PARTIC PMTS PAID TO FAMILY	REIMBURSEMENTS (EXCESS SUPPORT) PAID TO FAMILY	REFUNDS PAID TO FAMILY, ABSENT PARENT OR FOC
		600.00	37	0

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)
	If a Joint Return, Spouse's First Name		M.I.	Last Name	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)
	City or Town				
	State		ZIP Code		▶ 4. School District Code (5 digits - see p. 45)

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

6. **Homeowners:** Enter the 2005 **taxable value** of your homestead (see p. 20) ▶ 6. 00

7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49 ▶ 7. 00

8. **Renters:** Enter rent paid in 2005 from line 44 ▶ 8. 00

9. Multiply line 8 by 20% (.20) 9. 00

10. **Total.** Add lines 7 and 9 10. 00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.	00
12. All interest and dividend income (including nontaxable interest)	▶ 12.	00
13. Net rent, business or royalty income (including self-employment)	▶ 13.	00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.	00
15. Net farm income	▶ 15.	00
16. Capital gains less capital losses (see p. 20)	▶ 16.	00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.	00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.	00
19. Child support (see p. 21)	▶ 19.	00
20. Unemployment compensation	▶ 20.	00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.	00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.	00
23. FIP and other DHS benefits	▶ 23.	00
24. SUBTOTAL. Add lines 11-23 SUBTOTAL	24.	00
25. Other adjustments (see p. 21). Describe: 25.		00
26. Medical insurance or HMO premiums you paid for you and your family 26.		00
27. Add lines 25 and 26	▶ 27.	00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.	00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.	00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible ..	30.	00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32.		
All others must complete line 31.		
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.	00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.	00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.	00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.	00

SAMPLE 2

The claimant received a 2005 DHS Annual Statement reflecting \$5,508 for total FIP paid. The statement from the Office of Child Support reflects the following:

Current Amount	\$2,181
Arrearage Amount	360
Participation Payments Paid	350
Reimbursements Paid	0
Refunds Paid	0

To determine amount to be included in household income:

FIP per Annual Statement	\$5,508
Participation Payments Paid	<u>350</u>
Amount to be Included in Household Income	\$5,858

To determine child support:

Current Amount	\$2,181
Arrearage Amount	<u>360</u>
Total Child Support	\$2,541

To determine FIP income:

Household Income (Above)	\$5,858
Child Support (Above)	<u>-2,541</u>
Total FIP	\$3,317

CLIENT ANNUAL STATEMENT
State of Michigan Department of Human Services

SAMPLE 2

TOTALS FOR TAX YEAR
2005

CLIENT ID NUMBER
999999

SOCIAL SECURITY NUMBER
999-99-9999

FIP/SA	\$5,508
RAP/REP	
TOTAL PAID	\$5,508

Ma Sample
1000 Main St.
Detroit, Mi. 48211

Listed above is the cash public assistance paid to you or on your behalf by the Department of Human Services (DHS) for the tax year show.

- The FIP/SA Total includes Family Independence Program (FIP) and State Disability Assistance (SDA) payments and vendor payments for shelter, heat and utilities.
- The RAP/REP Total includes Refugee Assistance and Repatriate Assistance Program payments and vendor payments for shelter, heat and utilities.

You may be eligible for special tax credits from the State of Michigan. If you file for tax credits, you must report the amount shown on this statement on the tax credit application. Do not attach this statement to the tax credit application because Treasury does not require a copy. You will receive a separate statement of the total child support sent by the Friend of the Court to the State of Michigan. You may need to include this child support statement to file for tax credits.

Visit your nearest Treasury office for further information and help regarding the tax credits or call Treasury toll free at 1-800-487-7000. Tax credit applications are available at all Treasury offices.

Report any Income Tax refund or Special Tax Credit you receive to your worker.

This statement is for information purposes only.

SAMPLE 2

OFFICE OF CHILD SUPPORT
P.O. BOX 30037 LANSING MI 48909

REPORT DL-090
PAGE 1

STATE OF MICHIGAN
FAMILY INDEPENDENCE AGENCY
CHILD SUPPORT QUARTERLY STATEMENTS
LEGAL AUTHORITY 45 CFR 302.54
QUARTER ENDING 12/31/05

Ma Sample
1000 Main St.
Detroit, Mi. 48211

*** INFORMATIONAL ONLY ***
*** NO ACTION NEEDED ***
*** SAVE FOR YOUR RECORDS ***

LISTED BELOW ARE CHILD SUPPORT COLLECTIONS SENT TO FIA AS REPORTED BY THE FRIEND OF THE COURT (FOC) FOR THE FIP CASE NUMBER ABOVE. THE STATE OF MICHIGAN MAY CONTINUE TO RECEIVE ARREARAGE COLLECTIONS, EVEN AFTER FIP BENEFITS STOP, UP TO THE TOTAL AMOUNT OF FIP RECEIVED BECAUSE YOU ASSIGNED TO FIA YOUR RIGHTS TO SUPPORT PAYMENTS WHEN YOU SIGNED YOUR ASSISTANCE APPLICATION.

*** COLLECTIONS REC'D BY FIA THIS QUARTER ***

COLLECTION MONTH/YEAR	FRIEND OF THE COURT	COURT ORDER NUMBER	CURRENT AMOUNT PAID	ARREAR AMOUNT PAID
	Wayne	XXXXXX	2,181	360

*** PAYMENTS MADE FROM COLLECTIONS SENT TO FIA PROCESSED THIS QUARTER ***

COLLECTION MONTH/YEAR	PAYMENT DATE	PARTIC PMTS PAID TO FAMILY	REIMBURSEMENTS (EXCESS SUPPORT) PAID TO FAMILY	REFUNDS PAID TO FAMILY, ABSENT PARENT OR FOC
		350	0	0

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)	
	If a Joint Return, Spouse's First Name		M.I.	Last Name	— —	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)	
	City or Town				State	ZIP Code
					▶ 4. School District Code (5 digits - see p. 45)	

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

6. **Homeowners:** Enter the 2005 **taxable value** of your homestead (see p. 20) ▶ 6. 00

7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49 ▶ 7. 00

8. **Renters:** Enter rent paid in 2005 from line 44 ▶ 8. 00

9. Multiply line 8 by 20% (.20) 9. 00

10. **Total.** Add lines 7 and 9 10. 00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.	00
12. All interest and dividend income (including nontaxable interest)	▶ 12.	00
13. Net rent, business or royalty income (including self-employment)	▶ 13.	00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.	00
15. Net farm income	▶ 15.	00
16. Capital gains less capital losses (see p. 20)	▶ 16.	00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.	00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.	00
19. Child support (see p. 21)	▶ 19.	00
20. Unemployment compensation	▶ 20.	00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.	00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.	00
23. FIP and other DHS benefits	▶ 23.	00
24. SUBTOTAL. Add lines 11-23 SUBTOTAL	24.	00
25. Other adjustments (see p. 21). Describe: 25.		00
26. Medical insurance or HMO premiums you paid for you and your family 26.		00
27. Add lines 25 and 26	▶ 27.	00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.	00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.	00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible ..	30.	00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32.		
All others must complete line 31.		
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.	00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.	00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.	00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.	00

SAMPLE 3

The claimant received a 2005 DHS Annual Statement reflecting \$2,126 for total FIP paid. The statement from the Office of Child Support reflects the following:

Current Amount	\$2,684
Arrearage Amount	634
Participation Payments Paid	600
Reimbursements Paid	138
Refunds Paid	138

To determine amount to be included in household income:

FIP per Annual Statement	\$2,126
Participation Payments Paid	600
Reimbursements Paid	138
Refunds Paid	<u>138</u>
Amount to be Included in Household Income	\$3,002

To determine child support:

Current Amount	\$2,684
Arrearage Amount	<u>634</u>
Total Child Support	\$3,318

Since the child support figure is greater than the household income figure, limit the amount of child support to household income. Claimant's income will reflect child support only.

CLIENT ANNUAL STATEMENT
State of Michigan Department of Human Services

SAMPLE 3

TOTALS FOR TAX YEAR
2005
CLIENT ID NUMBER
999999
SOCIAL SECURITY NUMBER
999-99-9999

FIP/SA	\$2,126
RAP/REP	
TOTAL PAID	\$2,126

Ma Sample
1000 Main St.
Detroit, Mi 48211

Listed above is the cash public assistance paid to you or on your behalf by the Department of Human Services (DHS) for the tax year show.

- The FIP/SA Total includes Family Independence Program (FIP) and State Disability Assistance (SDA) payments and vendor payments for shelter, heat and utilities.
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Visit your nearest Treasury office for further information and help regarding the tax credits or call Treasury toll free at 1-800-487-7000. Tax credit applications are available at all Treasury offices.

Report any Income Tax refund or Special Tax Credit you receive to your worker.

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SAMPLE 3

OFFICE OF CHILD SUPPORT
P.O. BOX 30037 LANSING MI 48909

REPORT DL-090
PAGE 1

STATE OF MICHIGAN
FAMILY INDEPENDENCE AGENCY
CHILD SUPPORT QUARTERLY STATEMENTS
LEGAL AUTHORITY 45 CFR 302.54
QUARTER ENDING 12/31/05

Ma Sample
1000 Main St.
Detroit, Mi. 48211

*** INFORMATIONAL ONLY ***
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*** COLLECTIONS REC'D BY FIA THIS QUARTER ***

COLLECTION MONTH/YEAR	FRIEND OF THE COURT	COURT ORDER NUMBER	CURRENT AMOUNT PAID	ARREAR AMOUNT PAID
	WAYNE	XXXXXXX	2,684	634

*** PAYMENTS MADE FROM COLLECTIONS SENT TO FIA PROCESSED THIS QUARTER ***

COLLECTION MONTH/YEAR	PAYMENT DATE	PARTIC PMTS PAID TO FAMILY	REIMBURSEMENTS (EXCESS SUPPORT) PAID TO FAMILY	REFUNDS PAID TO FAMILY, ABSENT PARENT OR FOC
		600	138	1388

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name	M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)
	If a Joint Return, Spouse's First Name	M.I.	Last Name	
	Home Address (No., Street, P.O. Box or Rural Route)			▶ 3. Spouse's Social Security Number (Example: 123-45-6789)
	City or Town	State	ZIP Code	▶ 4. School District Code (5 digits - see p. 45)

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

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7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49 ▶ 7. 00

8. **Renters:** Enter rent paid in 2005 from line 44 ▶ 8. 00

9. Multiply line 8 by 20% (.20) 9. 00

10. **Total.** Add lines 7 and 9 10. 00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.	00
12. All interest and dividend income (including nontaxable interest)	▶ 12.	00
13. Net rent, business or royalty income (including self-employment)	▶ 13.	00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.	00
15. Net farm income	▶ 15.	00
16. Capital gains less capital losses (see p. 20)	▶ 16.	00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.	00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.	00
19. Child support (see p. 21)	▶ 19.	00
20. Unemployment compensation	▶ 20.	00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.	00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.	00
23. FIP and other DHS benefits	▶ 23.	00
24. SUBTOTAL. Add lines 11-23 SUBTOTAL	24.	00
25. Other adjustments (see p. 21). Describe: 25.		00
26. Medical insurance or HMO premiums you paid for you and your family 26.		00
27. Add lines 25 and 26	▶ 27.	00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.	00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.	00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible ..	30.	00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32.		
All others must complete line 31.		
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.	00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.	00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.	00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.	00

CHAPTER 6

PROBLEMS AND SOLUTIONS



PROBLEM 1 – HOMEOWNER

Prepare an MI-1040CR for John and Bertha Bowers, ages 64 and 67 respectively. They have no dependents or handicaps. Their social security numbers are 652-71-8320 and 210-30-6654, respectively. They owned and lived in their house at 312 W. Outer Drive, Detroit, MI 48106 for the entire year. The property tax bills on their homestead are:

<u>SUMMER 2004</u>		<u>WINTER 2004</u>	
Total Taxes	\$250	Total Taxes	745
Special Assessment Sidewalk	+150		
Total	400	Total	745
		Administration Fee	+ 5
Total	\$400	Total	\$750
State Equalized Value	\$52,000		
Taxable Value	\$30,285		

Their annual income is:

<u>SOCIAL SECURITY</u>		<u>PENSION</u>	
Paid by check or direct deposit	\$5,500	Gross Distributions	\$9,000
Medicare premiums deducted	500	Original contributions	2,200
Benefits for 2005	\$6,000	Taxable Benefits	\$6,800

They paid \$400 health insurance premiums to Aplac.

Assume the same facts as shown above and compute the homestead property tax credit for the Bowers for each of the following fact changes:

- A. Bertha's age is 63. _____
- B. Bertha's age is 63 and their \$5,500 Social Security income is changed to Social Security Disability. _____
- C. Bertha passed away two years ago at age 65. _____
- D. John and Bertha sold their home August 1, 2005, but moved in with their children on July 1. The children would not accept any rent from them for the remainder of the year. _____

PROBLEM 2 – RENTER

Vanessa Collins is age 36 and single. Vanessa has three dependents and no handicaps. Her social security number is 999-99-9999. Her only income is from wages of \$14,000. Vanessa pays no health insurance premiums, as health insurance is provided by her employer. She rented an apartment at 360 W. 18th Street, Holland, MI 49422, paying \$450 per month for the entire year. Her landlord is Bill Lux at 505 Main, Zeeland, MI 49424. Prepare her MI-1040CR.

Assume the same facts as shown above and compute the homestead property tax credit for Vanessa for each of the following fact changes:

- A. Vanessa rents an apartment at Holland City Towers.
The apartment building pays a service fee of 10%
to the Holland City Housing Commission.

- B. Vanessa lives in a mobile home park and pays lot
rent of \$450 per month, which includes
\$3 per month specific tax.

<p>PROBLEM 3: SENIOR CITIZEN WITH LARGE RENT</p>
--

Maggie Stonehead is age 78. She received a \$4,800 pension from Toys-R-Us and \$600 in interest income. Her annual Social Security statement revealed the following:

Paid by check or direct deposit	\$ 5,100
Medicare premiums deducted	<u>400</u>
Benefits for 2003	\$ 5,500

Maggie paid Blue Cross Insurance premiums of \$225 per quarter. She rented an apartment in the Biltmore Towers at 216 Biltmore S.E., Grand Rapids, MI 47460, paying \$400 per month for the entire year. Prepare the MI-1040CR for Maggie.

PROBLEM 4: VETERAN USING MI-1040CR-2

John Hogan is 55 years old and not married. His social security number is 111-11-6666. John received a disability pension from the Army of \$6,000 for the year. John's percent of disability is 15%. John also received wages of \$40,000 for the year.

The Property Tax Bill on his homestead at 54 Rutgers, Kalamazoo, MI 49001 contains the following information:

Property Taxes	\$ 811.00
Taxable Value	\$ 20,165.00

SOLUTION NOTE:

As a General Claimant, he would receive no Property Tax Credit (see computation below).

Property Taxes	\$ 811.00
HHI (\$46,000) x .035	<u>- 1,610.00</u>
	\$ 0.00

Therefore, examine the MI-1040CR-2 method.

- A. Assume the same facts as in the example above, _____
for John Hogan, except that he rented his home
paying \$500 per month for the entire year.
Also, assume that the combined non-homestead millage rate
for Kalamazoo city and county is 58.5 mills.

Solution Note: To prepare a credit for a renter, using the CR-2 method, the combined millage rate for the city and county must be obtained by the taxpayer or preparer. This figure may be obtained from the Treasurer/assessor's office, or from calculating it from tax bills of other taxpayers.

PROBLEM 5 – FIP/ DHS RECIPIENT

Ann Patterson had the following Household Income:

Wages	\$2,000
F.I.P./D.H.S.	<u>6,000</u>
Total H.H.I.	\$8,000

Per the Friend of the Court statement, the father paid \$1,000 in 2005. The Property Taxes on Ann Patterson's home in 2005 are \$800 and the Taxable Value is \$22,000. Ann's social security number is 222-02-2222 and her address is 1452 Dawson, Port Huron, MI 48322. Prepare Ann's MI-1040CR.

PROBLEM 6: HOME HEATING CREDIT

Art and Millie Watson are 81 and 79 respectively. Art is deaf (cannot communicate through the spoken word) and Millie is blind (vision of 20/200 or less with corrective lenses in the better eye. They have no children or other dependents.

Their income is as follows:

- Social Security after the Medicare deduction is \$500 per month.
- Pension from Ajax Manufacturing is \$5,000 for the year.

They present heating statement from Consumer Energy for the 12-consecutive-month period of November 1, 2004 through October 31, 2005 for \$1,705. They own their home and heat with gas. Prepare a Home Heating Credit for the Watson's.

Their social security numbers are 380-71-4143 and 416-23-5066, and they currently still own and reside in their home at 3607 Weaver, Royal Oak, MI 48237.

- A. Compute the heating credit for the Watson's if they moved on January 15, 2006 to 660 W. Foster, Ferndale, MI 48221 where heat is now included in their rent.
-

PROBLEM 7: MICHIGAN INCOME TAX RETURN
--

Dana and Sandra Edwards are ages 69 and 64 respectively. Their social security numbers are 000-00-0000 and 111-11-1111 and they reside at 200 River, Saginaw, MI 48000. Sandra's corrected vision in her better eye is 20/100. They have no other handicaps. They furnish 75% of the support for Dana's mother.

Their income for the year is from the following:

Wages	\$ 16,000
City of Highland Park	
Pension	12,000
Bank Interest	750

2005 W-2 Information	<u>Gross Wages</u>	<u>Fed WH</u>	<u>State WH</u>	<u>City WH</u>
38-1234567 Barker Products	\$16,000	\$750	\$350	\$250

They received a city income tax refund of \$100 in 2005 from their 2004 city income tax return.

They donated an automobile during the year to Goodwill Industries of Greater Detroit. They presented a Donors Certificate form 4284, reflecting a value of \$200. The NADA Guidebook reflected a value of \$300.

Prepare a Michigan Income Tax Return based on the above information.

Determine the Exemption Allowance for each of the following: Assume there are no federal or Michigan Special Exemptions, other than those shown. The Michigan exemption allowance is \$ 3,200 for each federal exemption and \$2,000 for each Michigan Special Exemption.

- | | |
|--|-------|
| A. Married couple, both over 65, and one dependent | _____ |
| B. Married couple, one under 65 | _____ |
| C. Married couple, both under 65, and one is blind | _____ |
| D. Single individual, over 65 and deaf | _____ |
| E. Single individual, under 65 and fully supports mother, age 77 | _____ |

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)	
	If a Joint Return, Spouse's First Name		M.I.	Last Name	— —	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)	
	City or Town				State	ZIP Code
					▶ 4. School District Code (5 digits - see p. 45)	

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

6. **Homeowners:** Enter the 2005 **taxable value** of your homestead (see p. 20) ▶ 6. 00

7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49 ▶ 7. 00

8. **Renters:** Enter rent paid in 2005 from line 44 ▶ 8. 00

9. Multiply line 8 by 20% (.20) 9. 00

10. **Total.** Add lines 7 and 9 10. 00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.	00
12. All interest and dividend income (including nontaxable interest)	▶ 12.	00
13. Net rent, business or royalty income (including self-employment)	▶ 13.	00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.	00
15. Net farm income	▶ 15.	00
16. Capital gains less capital losses (see p. 20)	▶ 16.	00
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18. Social Security, SSI and/or railroad retirement benefits	▶ 18.	00
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23. FIP and other DHS benefits	▶ 23.	00
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27. Add lines 25 and 26	▶ 27.	00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.	00
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All others must complete line 31.		
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.	00
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2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

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	If a Joint Return, Spouse's First Name		M.I.	Last Name	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)	
	City or Town				State	ZIP Code
					▶ 4. School District Code (5 digits - see p. 45)	

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7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49	▶ 7.		00
8. Renters: Enter rent paid in 2005 from line 44	▶ 8.		00
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10. Total. Add lines 7 and 9	10.		00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.		00
12. All interest and dividend income (including nontaxable interest)	▶ 12.		00
13. Net rent, business or royalty income (including self-employment)	▶ 13.		00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.		00
15. Net farm income	▶ 15.		00
16. Capital gains less capital losses (see p. 20)	▶ 16.		00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.		00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.		00
19. Child support (see p. 21)	▶ 19.		00
20. Unemployment compensation	▶ 20.		00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.		00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.		00
23. FIP and other DHS benefits	▶ 23.		00
24. SUBTOTAL. Add lines 11-23	SUBTOTAL 24.		00
25. Other adjustments (see p. 21). Describe:	25.		00
26. Medical insurance or HMO premiums you paid for you and your family	26.		00
27. Add lines 25 and 26	▶ 27.		00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.		00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.		00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible ..	30.		00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32.			
All others must complete line 31.			
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.		00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.		00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.		00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.		00

Filer's Social Security Number

▶ 35. Residency Status in 2005:

- a. ☐ Resident
- b. ☐ Nonresident
- c. ☐ Part-Year Resident*

FROM

TO

*Complete Dates of Residency in 2005
Enter dates as MM-DD-YYYY (Example: 04-15-2005)

YOU	
-	- 2005
-	- 2005

SPOUSE	
-	- 2005
-	- 2005

PART 1: HOMEOWNERS. Report on lines 36 and 37 the addresses of the homesteads you are claiming credit on.

36. Address of where you lived on December 31, 2005, if different than reported on line 1.	Taxable Value
37. Address of homestead sold during 2005 (No., street and city).	Taxable Value

If you bought or sold your home in 2005, complete lines 38-42.

HOMESTEAD:

	A. Bought	B. Sold
38. Number of days occupied (total cannot be more than 365) ▶ 38.		
39. Divide line 38 by 365 and enter percentage here 39.	%	%
40. Property taxes levied in calendar year 2005 40.		
41. Prorated taxes. Multiply line 40 by percentage on line 39 41.		
42. Taxes eligible for credit. Add line 41, columns A and B. Enter here and on line 7 42.		00

PART 2: RENTERS

43. Address of Homestead You Rented (No., Street, Apt. #, City)	Landowner's Name and Address	# Months Rented	Monthly Rent	▶ Total Rent Paid
A.				
B.				
44. Total rent paid (not more than 12 months). Add total rent for each period. Enter here and on line 8 44.				00

PART 3: OCCUPANTS OF HOUSING ON WHICH SERVICE FEES ARE PAID INSTEAD OF TAXES

45. Name and Address of Housing Project or Landowner	
46. Enter the total rent you paid in 2005. Do not include amounts paid on your behalf by a government agency..... 46.	00
47. Multiply line 46 by 10% (.10). Enter here and on line 7 47.	00

PART 4: OCCUPANTS OF NURSING OR ADULT FOSTER CARE HOMES OR HOMES FOR THE AGED

48. Name and Address of Care Facility	
49. Your share of taxes paid by the landowner (see p. 19). Enter here and on line 7 49.	00

**DIRECT DEPOSIT**

Deposit your refund directly into
your bank account! See p. 13 and
complete a, b and c.

- a. Routing Number ▶
- c. Account Number ▶

- b. Account Type: ▶ (1) ☐ Checking (2) ☐ Savings

Deceased Taxpayers. If Filer and/or Spouse died after 12-31-2004, enter dates below.
ENTER DATE OF DEATH ONLY. Example: 04-15-2006 (MM-DD-YYYY).

▶ Filer - - ▶ Spouse - -

Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.

Filer's Signature	Date
Spouse's Signature	Date

▶ I authorize Treasury to discuss my return with my preparer. ☐ Yes ☐ No

Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.

▶ Preparer's PTIN, FEIN or SSN

▶ Preparer's Business Name (print or type)

Preparer's Business Address (print or type)

If you are also filing Form MI-1040, attach this form behind it.

If not, mail this form to: **Michigan Department of Treasury, Lansing, MI 48956**

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)
	If a Joint Return, Spouse's First Name		M.I.	Last Name	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)
	City or Town				
	State		ZIP Code		▶ 4. School District Code (5 digits - see p. 45)

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

6. Homeowners: Enter the 2005 taxable value of your homestead (see p. 20)	▶ 6.		00
7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49	▶ 7.		00
8. Renters: Enter rent paid in 2005 from line 44	▶ 8.		00
9. Multiply line 8 by 20% (.20)	9.		00
10. Total. Add lines 7 and 9	10.		00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.		00
12. All interest and dividend income (including nontaxable interest)	▶ 12.		00
13. Net rent, business or royalty income (including self-employment)	▶ 13.		00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.		00
15. Net farm income	▶ 15.		00
16. Capital gains less capital losses (see p. 20)	▶ 16.		00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.		00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.		00
19. Child support (see p. 21)	▶ 19.		00
20. Unemployment compensation	▶ 20.		00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.		00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.		00
23. FIP and other DHS benefits	▶ 23.		00
24. SUBTOTAL. Add lines 11-23	24.	SUBTOTAL	00
25. Other adjustments (see p. 21). Describe:	25.		00
26. Medical insurance or HMO premiums you paid for you and your family	26.		00
27. Add lines 25 and 26	▶ 27.		00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.		00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.		00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible	30.		00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32. All others must complete line 31.			
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.		00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.		00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.		00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.		00

Filer's Social Security Number

35. Residency Status in 2005:

- a. ☐ Resident
- b. ☐ Nonresident
- c. ☐ Part-Year Resident*

*Complete Dates of Residency in 2005
Enter dates as MM-DD-YYYY (Example: 04-15-2005)

FROM

TO

YOU	
-	- 2005
-	- 2005

SPOUSE	
-	- 2005
-	- 2005

PART 1: HOMEOWNERS. Report on lines 36 and 37 the addresses of the homesteads you are claiming credit on.

36. Address of where you lived on December 31, 2005, if different than reported on line 1.	Taxable Value
37. Address of homestead sold during 2005 (No., street and city).	Taxable Value

If you bought or sold your home in 2005, complete lines 38-42.

HOMESTEAD:

	A. Bought	B. Sold
38. Number of days occupied (total cannot be more than 365) 38.		
39. Divide line 38 by 365 and enter percentage here 39.	%	%
40. Property taxes levied in calendar year 2005 40.		
41. Prorated taxes. Multiply line 40 by percentage on line 39 41.		
42. Taxes eligible for credit. Add line 41, columns A and B. Enter here and on line 7 42.		00

PART 2: RENTERS

43. Address of Homestead You Rented (No., Street, Apt. #, City)	Landowner's Name and Address	# Months Rented	Monthly Rent	Total Rent Paid
A.				
B.				
44. Total rent paid (not more than 12 months). Add total rent for each period. Enter here and on line 8 44.				00

PART 3: OCCUPANTS OF HOUSING ON WHICH SERVICE FEES ARE PAID INSTEAD OF TAXES

45. Name and Address of Housing Project or Landowner	
46. Enter the total rent you paid in 2005. Do not include amounts paid on your behalf by a government agency..... 46.	00
47. Multiply line 46 by 10% (.10). Enter here and on line 7 47.	00

PART 4: OCCUPANTS OF NURSING OR ADULT FOSTER CARE HOMES OR HOMES FOR THE AGED

48. Name and Address of Care Facility	
49. Your share of taxes paid by the landowner (see p. 19). Enter here and on line 7 49.	00

**DIRECT DEPOSIT**

Deposit your refund directly into
your bank account! See p. 13 and
complete a, b and c.

- a. Routing Number ▶
- c. Account Number ▶

- b. Account Type: ▶ (1) ☐ Checking (2) ☐ Savings

Deceased Taxpayers. If Filer and/or Spouse died after 12-31-2004, enter dates below.
ENTER DATE OF DEATH ONLY. Example: 04-15-2006 (MM-DD-YYYY).

▶ Filer - - ▶ Spouse - -

Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.

Filer's Signature	Date
Spouse's Signature	Date

▶ I authorize Treasury to discuss my return with my preparer. ☐ Yes ☐ No

Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.

▶ Preparer's PTIN, FEIN or SSN

▶ Preparer's Business Name (print or type)

Preparer's Business Address (print or type)

If you are also filing Form MI-1040, attach this form behind it.

If not, mail this form to: **Michigan Department of Treasury, Lansing, MI 48956**

Then use the **actual** household income to compute the credit. See instructions for annualizing on page 22.

Line 34: Taxpayers with household income over \$82,650 (line 28) are not eligible for credit in any category. The computed credit is reduced by 10 percent for every \$1,000 (or part of \$1,000) that your household income exceeds \$73,650. If you are filing a part-year return (for a deceased taxpayer or a part-year resident), you must annualize the household income to determine if the credit reduction applies. If the annualized income is more than \$73,650, use actual household income to compute the credit; then reduce the credit 10 percent for every \$1,000 (or part of \$1,000) that your annualized income exceeds \$73,650. The surviving spouse filing a joint claim does not have to annualize the deceased spouse's income.

To annualize income (project what it would have been for a full year):

Step 1: Divide 365 by the number of days the claimant was a Michigan resident in 2005.

Step 2: Multiply the answer from step 1 by the claimant's household income (line 28). The result is annualized income.

Line 35: If you and your spouse had a different residency status, check the box that applies to each spouse.

Renters

See "Rent That Can Be Claimed for Credit" on page 18.

Line 43: If you rented a Michigan homestead subject to local property taxes, enter the street number and name, city, landlord's name and address, number of months rented, rent paid per month and total rent paid. Do this for each Michigan homestead rented during 2005. If you need more space, attach an additional sheet. Do not include more than 12 months' rent. Do not include amounts paid directly to the landowner on your behalf by a government agency, unless payment is made with money withheld from your benefit.

Credit Proration

If you received FIP assistance or other DHS benefits in 2005, prorate your credit to reflect the ratio of income from other sources to total household income. To prorate your credit, complete your Form MI-1040CR, lines 1-30 first, then use the information from your form to complete Worksheet 4 below.

Alternate Property Tax Credit for Renters Age 65 or Older

Worksheet 5, Line B: Enter rent paid from line 44 or, if you live in service fee housing, enter amount from line 46. If you moved from one rental homestead to another during the last two years (also see "If You Moved in 2005" on page 18), enter smaller of:

- The final month's rent on your previous rented homestead multiplied by 12, **or**
- The actual rent paid from line 44 or line 46.

TABLE 3: PERCENT OF TAXES NOT REFUNDABLE

ALL GENERAL CLAIMANTS

<u>Income</u>	<u>% of Income</u>
\$0 - \$82,650	3.5%

OTHER CLAIMANTS*

<u>Income</u>	<u>% of Income</u>
\$3,000 or less	0%
\$3,001 - \$4,000	1%
\$4,001 - \$5,000	2%
\$5,001 - \$6,000	3%
More than \$6,000	3.5%

*Other claimants are senior citizens or people who are paraplegic, hemiplegic, quadriplegic, blind, deaf, or totally and permanently disabled or unremarried spouse of an individual 65 or older.

WORKSHEET 4 - FIP/DHS BENEFITS

- Enter amount from line 23 (FIP and other DHS benefits)
- Enter amount from line 28 (Household Income)
- Subtract line A from line B
- Divide line C by line B and enter percentage here
- If you checked a box on line 5, enter amount from line 30. All others, multiply amount on line 30 by 60% (.60) and enter here (max. \$1,200) ...
- Multiply line E by line D. If you are age 65 or older and you rent your home, enter amount here and on line A of Worksheet 5 below.
Otherwise, enter here and on your MI-1040CR, line 32

WORKSHEET 5 - ALTERNATE PROPERTY TAX CREDIT FOR RENTERS AGE 65 AND OLDER

- Enter amount from line 30 or from Worksheet 4, Line F, above
- Enter rent paid from line 44 or line 46
- Multiply amount on line 28 by 40% (.40) and enter here
- Subtract line C from line B. If line C is more than line B, enter "0"
- Enter the larger of line A or line D here and carry amount to your MI-1040CR, line 32

**2005 MICHIGAN Homestead Property Tax Credit
Claim for Veterans and Blind People MI-1040CR-2****FINAL DRAFT**
10/20/05

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 06

PLACE LABEL HERE	▶ 1. Filer's First Name	M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)
	If a Joint Return, Spouse's First Name	M.I.	Last Name	▶ 3. Spouse's Social Security Number (Example: 123-45-6789)
	Home Address (No., Street, P.O. Box or Rural Route)			▶ 4. School District Code (5 digits - see p. 15)
	City or Town	State	ZIP Code	

▶ 5. Residency Status in 2005:

a. ☐ Resident

b. ☐ Nonresident

c. ☐ Part-Year Resident*

FROM: _____ TO: _____

YOU	SPOUSE
— — 2005	— — 2005
— — 2005	— — 2005

*If you checked box "c," enter dates of residency in 2005.
Enter dates as MM-DD-YYYY (Example: 04-15-2005)

▶ 6. Check one of the following that applies to you:

a. ☐ Blind and own your homestead

b. ☐ Veteran with service-connected disability or veteran's surviving spouse.
▶ Enter percent of disability: %

c. ☐ Surviving spouse of veteran deceased in service

* d. ☐ Active military, pensioned veteran or his/her surviving spouse

* e. ☐ Surviving spouse of a nondisabled or nonpensioned veteran of the Korean War, World War II, or World War I

* If you checked "d" or "e" above and your household income (line 29) is more than \$7,500, you cannot claim a credit on this form.

7. Taxable value allowance from Table 1, p.10	▶ 7.	00
8. Taxable value of homestead	▶ 8.	00
9. Property taxes levied on your home for 2005 (see pages 4-5)	▶ 9.	00
10. Percent of tax relief. Divide line 7 by line 8	10.	%
11. Multiply line 9 by line 10. Enter the result (maximum \$1,200)	11.	00
HOUSEHOLD INCOME. Include income from both spouses.		
12. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 12.	00
13. All interest and dividend income (including nontaxable interest)	▶ 13.	00
14. Net rent, business or royalty income (including self-employment)	▶ 14.	00
15. Retirement pension, annuity, and IRA benefits. Name of payer: _____	▶ 15.	00
16. Net farm income	▶ 16.	00
17. Capital gains less capital losses (see p. 7)	▶ 17.	00
18. Alimony and other taxable income (see p. 8). Describe: _____	▶ 18.	00
19. Social Security, SSI and/or railroad retirement benefits	▶ 19.	00
20. Child support (see p. 8)	▶ 20.	00
21. Unemployment compensation	▶ 21.	00
22. Other nontaxable income (see p. 8). Describe: _____	▶ 22.	00
23. Workers' compensation, <u>veterans' disability compensation</u> and pension benefits	▶ 23.	00
24. FIP and other DHS benefits	▶ 24.	00
25. SUBTOTAL. Add lines 12-24	25.	00
26. Other adjustments (see p. 8). Describe: _____	26.	00
27. Medical insurance or HMO premiums you paid for you and your family	27.	00
28. Add lines 26 and 27	▶ 28.	00
29. HOUSEHOLD INCOME. Subtract line 28 from line 25. If greater than \$82,650, STOP; you are not eligible.	▶ 29.	00
30. PROPERTY TAX CREDIT (maximum \$1,200). Enter one of the following: a. FIP/DHS RECIPIENTS, enter amount from the Worksheet on p. 8. b. If line 29 is more than \$73,650, see instructions on p. 9 and enter the reduced amount. c. ALL OTHERS, enter the amount from line 11. If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 30.	00

Filer's Social Security Number

PART 1: HOMEOWNERS. Report on lines 31 and 32 the addresses of the homesteads you are claiming credit on.

31. Address of where you lived on December 31, 2005, if different than reported on line 1.

32. Address of homestead sold during 2005 (No., street and city).

If you bought or sold your home in 2005, complete lines 33-41. If you also rented a homestead during 2005, complete lines 42-53.

33. Number of days occupied (total cannot be more than 365) ▶ 33.

34. Divide line 33 by 365 and enter percentage here 34.

35. Property taxes levied in calendar year 2005 35.

36. Prorated taxes. Multiply line 35 by percentage on line 34 36.

37. Taxable value allowance (see Table 1, p. 10) 37.

38. Taxable value 38.

39. Divide line 37 by line 38 39.

40. Prorated credit. Multiply line 36 by line 39 40.

41. Property tax credit (add columns A and B on line 40). Enter here and on line 11.

Part-year renters, do not carry to line 11; complete lines 42-53 41.

HOMESTEAD			
A. Moved Into		B. Moved From	
	%		%
	%		%
			00

PART 2: RENTERS (Veterans Only)

42.	Address of Homestead You Rented (No., Street, Apt. #, City)	Landowner's Name and Address	# Months Rented	Monthly Rent	▶ Total Rent Paid for Each Homestead
A.					
B.					
43.	Total rent paid (not more than 12 months). Add total rent for each period				00
44.	Multiply line 43 by 20% (.20). Service fee housing residents use 10% (.10) (see p. 5). Full-year renters, enter here and on line 9				00
45.	Multiply non-homestead property tax millage by .001 (see page 10, Credit Computation Examples)				
46.	Full-year renters, divide line 44 by line 45 to get your taxable value. Enter here and on line 8				00
47.	Divide line 43 by the number of months you rented				00
48.	Multiply line 47 by 12 months				00
49.	Multiply line 48 by 20% (.20). Service fee housing residents, use 10% (.10) (see p. 5)				00
50.	Divide line 49 by line 45. This is your taxable value				00
51.	Percent of tax relief. Divide line 7 by line 50				%
52.	Multiply line 44 by line 51				00
53.	Add lines 41 and 52. Enter here and on line 11				00

**DIRECT DEPOSIT**

Deposit your refund directly into your bank account! See p. 9 and complete a, b and c.

a. Routing Number ▶
c. Account Number ▶b. Account Type: ▶ (1) ☐ Checking (2) ☐ Savings**Deceased Taxpayers.** If Filer and/or Spouse died after 12-31-2004, enter dates below.
ENTER DATE OF DEATH ONLY. Example: 04-15-2006 (MM-DD-YYYY).▶ Filer - - ▶ Spouse - -**Taxpayer Certification.** I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.

Filer's Signature _____ Date _____

Spouse's Signature _____ Date _____

▶ I authorize Treasury to discuss my return with my preparer. ☐ Yes ☐ No**Preparer Certification.** I declare under penalty of perjury that this return is based on all information of which I have any knowledge.

▶ Preparer's PTIN, FEIN or SSN

▶ Preparer's Business Name (print or type)

Preparer's Business Address (print or type)

2005 MICHIGAN Homestead Property Tax Credit Claim MI-1040CR

Issued under authority of P.A. 281 of 1967. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 05

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name	▶ 2. Filer's Social Security Number (Example: 123-45-6789)	
	If a Joint Return, Spouse's First Name		M.I.	Last Name	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
	Home Address (No., Street, P.O. Box or Rural Route)				▶ 3. Spouse's Social Security Number (Example: 123-45-6789)	
	City or Town				State	ZIP Code
					▶ 4. School District Code (5 digits - see p. 45)	

▶ 5. Check the box(es) for which you qualify:

a. ☐ Age 65 or older; or an unmarried spouse of a person who was 65 or older at the time of death

b. ☐ Deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled

6. Homeowners: Enter the 2005 taxable value of your homestead (see p. 20)	▶ 6.		00
7. Property Taxes levied on your home in 2005 (see p. 17) or amount from line 42, 47 and 49	▶ 7.		00
8. Renters: Enter rent paid in 2005 from line 44	▶ 8.		00
9. Multiply line 8 by 20% (.20)	9.		00
10. Total. Add lines 7 and 9	10.		00

HOUSEHOLD INCOME. Include income from both spouses.

11. Wages, salaries, tips, sick, strike and SUB pay, etc.	▶ 11.		00
12. All interest and dividend income (including nontaxable interest)	▶ 12.		00
13. Net rent, business or royalty income (including self-employment)	▶ 13.		00
14. Retirement pension, annuity, and IRA benefits. Name of payer:	▶ 14.		00
15. Net farm income	▶ 15.		00
16. Capital gains less capital losses (see p. 20)	▶ 16.		00
17. Alimony and other taxable income (see p. 21). Describe:	▶ 17.		00
18. Social Security, SSI and/or railroad retirement benefits	▶ 18.		00
19. Child support (see p. 21)	▶ 19.		00
20. Unemployment compensation	▶ 20.		00
21. Other nontaxable income (see p. 21). Describe:	▶ 21.		00
22. Workers' compensation, veterans' disability compensation and pension benefits	▶ 22.		00
23. FIP and other DHS benefits	▶ 23.		00
24. SUBTOTAL. Add lines 11-23	SUBTOTAL 24.		00
25. Other adjustments (see p. 21). Describe:	25.		00
26. Medical insurance or HMO premiums you paid for you and your family	26.		00
27. Add lines 25 and 26	▶ 27.		00
28. HOUSEHOLD INCOME. Subtract line 27 from line 24. If more than \$82,650, STOP; you are not eligible	▶ 28.		00
29. Multiply line 28 by 3.5% (.035) or by the percent in Table 3 (see p. 22) (if negative, enter 0)	29.		00
30. Subtract line 29 from line 10. If line 29 is more than line 10, enter "0" and STOP; you are not eligible ..	30.		00
If you checked a box on line 5, complete line 32 or 33. FIP/DHS recipients, complete line 32.			
All others must complete line 31.			
31. Multiply line 30 by 60% (.60) (maximum \$1,200). Go to line 34	31.		00
32. FIP/DHS recipients , enter amount from Worksheet 4 on p. 22. Seniors who pay rent , complete Worksheet 5 on p. 22 and enter amount from worksheet here (maximum \$1,200). Go to line 34	32.		00
33. If you checked a box on line 5 (if you completed line 32, skip this line), enter the amount from line 30 (maximum \$1,200). Go to line 34	33.		00
34. CREDIT. If your household income (line 28) is less than \$73,650, enter the amount that applies to you from line 31, 32 or 33 here. If household income is more than \$73,650, you must reduce your credit (see instructions on p. 22). If you file an MI-1040, carry this amount to your MI-1040, line 33	▶ 34.		00

Filer's Social Security Number

35. Residency Status in 2005:

- a. ☐ Resident
- b. ☐ Nonresident
- c. ☐ Part-Year Resident*

*Complete Dates of Residency in 2005
Enter dates as MM-DD-YYYY (Example: 04-15-2005)

FROM

TO

YOU	
-	- 2005
-	- 2005

SPOUSE	
-	- 2005
-	- 2005

PART 1: HOMEOWNERS. Report on lines 36 and 37 the addresses of the homesteads you are claiming credit on.

36. Address of where you lived on December 31, 2005, if different than reported on line 1.	Taxable Value
37. Address of homestead sold during 2005 (No., street and city).	Taxable Value

If you bought or sold your home in 2005, complete lines 38-42.

HOMESTEAD:

	A. Bought	B. Sold
38. Number of days occupied (total cannot be more than 365) 38.		
39. Divide line 38 by 365 and enter percentage here 39.	%	%
40. Property taxes levied in calendar year 2005 40.		
41. Prorated taxes. Multiply line 40 by percentage on line 39 41.		
42. Taxes eligible for credit. Add line 41, columns A and B. Enter here and on line 7 42.		00

PART 2: RENTERS

43. Address of Homestead You Rented (No., Street, Apt. #, City)	Landowner's Name and Address	# Months Rented	Monthly Rent	Total Rent Paid
A.				
B.				
44. Total rent paid (not more than 12 months). Add total rent for each period. Enter here and on line 8 44.				00

PART 3: OCCUPANTS OF HOUSING ON WHICH SERVICE FEES ARE PAID INSTEAD OF TAXES

45. Name and Address of Housing Project or Landowner	
46. Enter the total rent you paid in 2005. Do not include amounts paid on your behalf by a government agency..... 46.	00
47. Multiply line 46 by 10% (.10). Enter here and on line 7 47.	00

PART 4: OCCUPANTS OF NURSING OR ADULT FOSTER CARE HOMES OR HOMES FOR THE AGED

48. Name and Address of Care Facility	
49. Your share of taxes paid by the landowner (see p. 19). Enter here and on line 7 49.	00

**DIRECT DEPOSIT**

Deposit your refund directly into
your bank account! See p. 13 and
complete a, b and c.

- a. Routing Number ▶
- c. Account Number ▶

- b. Account Type: ▶ (1) ☐ Checking (2) ☐ Savings

Deceased Taxpayers. If Filer and/or Spouse died after 12-31-2004, enter dates below.**ENTER DATE OF DEATH ONLY.** Example: 04-15-2006 (MM-DD-YYYY).

▶ Filer - - ▶ Spouse - -

Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.

Filer's Signature	Date
Spouse's Signature	Date

▶ I authorize Treasury to discuss my return with my preparer. ☐ Yes ☐ No

Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.

▶ Preparer's PTIN, FEIN or SSN

▶ Preparer's Business Name (print or type)

Preparer's Business Address (print or type)

If you are also filing Form MI-1040, attach this form behind it.

If not, mail this form to: Michigan Department of Treasury, Lansing, MI 48956

Then use the **actual** household income to compute the credit. See instructions for annualizing on page 22.

Line 34: Taxpayers with household income over \$82,650 (line 28) are not eligible for credit in any category. The computed credit is reduced by 10 percent for every \$1,000 (or part of \$1,000) that your household income exceeds \$73,650. If you are filing a part-year return (for a deceased taxpayer or a part-year resident), you must annualize the household income to determine if the credit reduction applies. If the annualized income is more than \$73,650, use actual household income to compute the credit; then reduce the credit 10 percent for every \$1,000 (or part of \$1,000) that your annualized income exceeds \$73,650. The surviving spouse filing a joint claim does not have to annualize the deceased spouse's income.

To annualize income (project what it would have been for a full year):

Step 1: Divide 365 by the number of days the claimant was a Michigan resident in 2005.

Step 2: Multiply the answer from step 1 by the claimant's household income (line 28). The result is annualized income.

Line 35: If you and your spouse had a different residency status, check the box that applies to each spouse.

Renters

See "Rent That Can Be Claimed for Credit" on page 18.

Line 43: If you rented a Michigan homestead subject to local property taxes, enter the street number and name, city, landlord's name and address, number of months rented, rent paid per month and total rent paid. Do this for each Michigan homestead rented during 2005. If you need more space, attach an additional sheet. Do not include more than 12 months' rent. Do not include amounts paid directly to the landowner on your behalf by a government agency, unless payment is made with money withheld from your benefit.

Credit Proration

If you received FIP assistance or other DHS benefits in 2005, prorate your credit to reflect the ratio of income from other sources to total household income. To prorate your credit, complete your Form MI-1040CR, lines 1-30 first, then use the information from your form to complete Worksheet 4 below.

Alternate Property Tax Credit for Renters Age 65 or Older

Worksheet 5, Line B: Enter rent paid from line 44 or, if you live in service fee housing, enter amount from line 46. If you moved from one rental homestead to another during the last two years (also see "If You Moved in 2005" on page 18), enter smaller of:

- The final month's rent on your previous rented homestead multiplied by 12, **or**
- The actual rent paid from line 44 or line 46.

TABLE 3: PERCENT OF TAXES NOT REFUNDABLE

ALL GENERAL CLAIMANTS

<u>Income</u>	<u>% of Income</u>
\$0 - \$82,650	3.5%

OTHER CLAIMANTS*

<u>Income</u>	<u>% of Income</u>
\$3,000 or less	0%
\$3,001 - \$4,000	1%
\$4,001 - \$5,000	2%
\$5,001 - \$6,000	3%
More than \$6,000	3.5%

*Other claimants are senior citizens or people who are paraplegic, hemiplegic, quadriplegic, blind, deaf, or totally and permanently disabled or unremarried spouse of an individual 65 or older.

WORKSHEET 4 - FIP/DHS BENEFITS

- A. Enter amount from line 23 (FIP and other DHS benefits)
- B. Enter amount from line 28 (Household Income)
- C. Subtract line A from line B
- D. Divide line C by line B and enter percentage here
- E. If you checked a box on line 5, enter amount from line 30. All others, multiply amount on line 30 by 60% (.60) and enter here (max. \$1,200) ...
- F. Multiply line E by line D. If you are age 65 or older and you rent your home, enter amount here and on line A of Worksheet 5 below.
Otherwise, enter here and on your MI-1040CR, line 32

WORKSHEET 5 - ALTERNATE PROPERTY TAX CREDIT FOR RENTERS AGE 65 AND OLDER

- A. Enter amount from line 30 or from Worksheet 4, Line F, above
- B. Enter rent paid from line 44 or line 46
- C. Multiply amount on line 28 by 40% (.40) and enter here
- D. Subtract line C from line B. If line C is more than line B, enter "0"
- E. Enter the larger of line A or line D here and carry amount to your MI-1040CR, line 32

2005 MICHIGAN Home Heating Credit Claim MI-1040CR-7

Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 08

PLACE LABEL HERE	▶ 1. Filer's First Name		M.I.	Last Name		▶ 2. Filer's Social Security No. (Example: 123-45-6789)	
	If a Joint Return, Spouse's First Name		M.I.	Last Name		<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
	Home Address (No., Street, P.O. Box or Rural Route)					▶ 3. Spouse's Social Security No. (Example: 123-45-6789)	
	City or Town					State	ZIP Code
							▶ 4. County Code (p.15)

- ▶ 5. Are your heating costs currently included in your rent or is your heat service in someone else's name (see instructions)? ☐ Yes ☐ No
- ▶ 6. Do you want your name and address referred to other government assistance programs for which you may qualify? ☐ Yes ☐ No
- ▶ 7. Do you or your spouse now receive Supplemental Security Income (SSI)? ☐ Yes ☐ No
- ▶ 8. ENTER YOUR AGE if you are age 60 or older

You	Spouse
- ▶ 9. How much were you billed for heat between 11/1/2004 - 10/31/2005?

	00
--	----
- ▶ 10. If you lived in one of these CARE facilities for all of 2005, check the box (see instructions).
- a. ☐ Nursing Home b. ☐ Adult Foster Care Home
- c. ☐ Licensed Home for the Aged d. ☐ Substance Abuse Center

- ▶ 11. **Exemptions.** Enter the number that applies to you, your spouse, or your dependents and complete line 12 below.

Personal Exemption.....	▶ a.	
Age 65 or older	▶ b.	
Deaf, Disabled or Blind	▶ c.	
Unemployment compensation greater than 50% of AGI	▶ d.	
Number of children living with you:		
• Ages 2 and under.....	▶ e.	
• Ages 3-5.....	▶ f.	
• Ages 6-18.....	▶ g.	
Dependent adults, other than your spouse, who live with you	▶ h.	
Add lines 11a through 11h	i.	

12. Enter below the name, Social Security number, relationship and age of the dependents you claimed in line 11, e - h above.

Dependent's Name	Dependent's Relationship to You	Social Security Number	Age in Years
a.			
b.			
c.			
d.			

13. Wages, salaries, tips, sick, strike and SUB pay, etc	13.		00
14. All interest and dividend income (including nontaxable interest)	14.		00
15. Net rent, business or royalty income (including self-employment)	▶ 15.		00
16. Annuity, retirement pension and IRA benefits. Name of Payer:	16.		00
17. Net farm income	17.		00
18. Capital gains less capital losses	18.		00
19. Alimony and other taxable income (see instructions). Describe:	19.		00
20. Social Security, Supplemental Security Income (SSI) and/or railroad retirement benefits	▶ 20.		00
21. Child support	21.		00
22. Unemployment compensation	▶ 22.		00
23. Other nontaxable income (see instructions). Describe:	23.		00
24. Workers' compensation, veterans' disability compensation and pension benefits	24.		00
25. FIP and other DHS benefits	▶ 25.		00
26. Subtotal. Add lines 13 - 25. Enter here and carry amount to line 27	26.		00

Filer's Social Security Number

27. Enter amount from line 26 27.

	00
--	----
28. Other adjustments (see instructions).
Describe: 28.

	00
--	----
29. Medical insurance or HMO premiums you paid for you and your family 29.

	00
--	----
30. Add lines 28 and 29 30.

	00
--	----
31. **HOUSEHOLD INCOME.** Subtract line 30 from line 27. If line 30 is greater than line 27, enter "0" ▶ 31.

	00
--	----

Standard and Alternate Home Heating Credit Computations

32. **STANDARD CREDIT.** Standard allowance from Table A, p.15 32.

	00
--	----
33. Multiply household income (line 31) by 3.5% (.035) 33.

	00
--	----
34. Subtract line 33 from line 32 for standard credit amount.
If line 33 is greater than line 32, enter "0" 34.

	00
--	----
35. If you answered "Yes" to line 5, multiply the amount on line 34 by 50% (.50). Enter here and on line 40. (If approved, the final amount as shown on line 41 is issued as a check.) 35.

	00
--	----
36. **ALTERNATE CREDIT.** Total heating costs from line 9 or \$2,043 (whichever is less) 36.

	00
--	----
37. Multiply household income (line 31) by 11% (.11) 37.

	00
--	----
38. Subtract line 37 from line 36. If line 37 is greater than line 36, enter "0" 38.

	00
--	----
39. Multiply line 38 by 70% (.70) for alternate credit amount 39.

	00
--	----
40. If you completed line 35, enter that amount here. Otherwise, enter the larger of lines 34 or 39 here 40.

	00
--	----
41. **HOME HEATING CREDIT.** Multiply the amount on line 40 by XX% (0.XX) ▶ 41.

	00
--	----

42. RESIDENCY in 2005.

- a. ☐ Resident
- b. ☐ Nonresident
- c. ☐ Part-Year Resident*

*If you checked box "c," enter dates of residency in 2005.
Enter dates as MM-DD-YYYY (Example: 04-15-2005)

FROM:

TO:

YOU		SPOUSE	
—	— 2005	—	— 2005
—	— 2005	—	— 2005

IMPORTANT

43. ▶ ☐ If you are a DHS recipient, you must check this box to receive a refund from your heat provider for any overpayment to your heat account, if eligible. See instructions, p. 8

Before you sign, please review your claim. Make sure your name, Social Security number and current mailing address are on the form and that you have answered all the questions that pertain to you.

Deceased Taxpayers. If Filer and/or Spouse died after 12-31-2004, enter dates below. ENTER DATE OF DEATH ONLY. Example: 04-15-2006 (MM-DD-YYYY).		Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.					
▶ Filer <table border="1" style="display: inline-table; width: 150px; height: 20px; vertical-align: middle;"><tr><td style="width: 50px; text-align: center;">—</td><td style="width: 50px; text-align: center;">—</td></tr></table>	—	—	▶ Spouse <table border="1" style="display: inline-table; width: 150px; height: 20px; vertical-align: middle;"><tr><td style="width: 50px; text-align: center;">—</td><td style="width: 50px; text-align: center;">—</td></tr></table>	—	—	▶ Preparer's PTIN, FEIN or SSN <table border="1" style="width: 100%; height: 20px;"></table>	
—	—						
—	—						
Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.		▶ Preparer's Business Name (print or type) <table border="1" style="width: 100%; height: 20px;"></table>					
Filer's Signature	Date	Preparer's Business Address (print or type)					
Spouse's Signature	Date						
▶ I authorize Treasury to discuss my return with my preparer. <input type="checkbox"/> Yes <input type="checkbox"/> No							

**File (postmark) your claim by September 30, 2006. Mail your claim to: Michigan Department of Treasury
Lansing, MI 48956**

+ 0000 2005 37 02 27 1

2005 MICHIGAN Individual Income Tax Return MI-1040**FINAL DRAFT**
10/27/05**Return is due April 17, 2006.**

Type or print in blue or black ink. Print numbers like this: 0123456789 - NOT like this: 0147

PLACE LABEL HERE	1. Filer's First Name	M.I.	Last Name	2. Filer's Social Security No. (Example: 123-45-6789)
	If a Joint Return, Spouse's First Name	M.I.	Last Name	
	Home Address (No., Street, P.O. Box or Rural Route)			3. Spouse's Social Security No. (Example: 123-45-6789)
	City or Town	State	ZIP Code	4. School District Code (5 digits - see p. 45)

**MILITARY FAMILY RELIEF FUND
CHILDREN'S TRUST FUND**

You may contribute to the Military Family Relief Fund and the Children's Trust Fund on lines 29 and 30 of this form.

5. STATE CAMPAIGN FUND Check this box if you (or your spouse, if filing a joint return) want \$3 of your taxes to go to this fund. This will not increase your tax or reduce your refund. <table border="0"> <tr> <td></td> <td>Yes</td> <td>No</td> </tr> <tr> <td>a. You</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>b. Spouse</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>		Yes	No	a. You	<input type="checkbox"/>	<input type="checkbox"/>	b. Spouse	<input type="checkbox"/>	<input type="checkbox"/>	6. FARMERS, FISHERMEN OR SEAFARERS <input type="checkbox"/> Check this box if 2/3 of your income is from farming, fishing or seafaring.
	Yes	No								
a. You	<input type="checkbox"/>	<input type="checkbox"/>								
b. Spouse	<input type="checkbox"/>	<input type="checkbox"/>								
7. FILING STATUS. Check one. a. <input type="checkbox"/> Single b. <input type="checkbox"/> Married, filing jointly c. <input type="checkbox"/> Married, filing separately* <div style="border: 1px solid black; width: 150px; height: 20px; margin-top: 10px;"></div> <p style="font-size: small;">*If you check box "c," complete line 3 and enter spouse's name below:</p>	8. RESIDENCY. Check all that apply. a. <input type="checkbox"/> Resident b. <input type="checkbox"/> Nonresident* c. <input type="checkbox"/> Part-Year Resident* <p style="font-size: small;">* If you check box "b" or "c," you must complete and attach Schedule NR.</p>									

9. EXEMPTIONS

a. Number of exemptions you claimed on your 2005 federal return	9a.		x \$3,200		00
b. Number of individuals 65 or older who qualify for a special exemption	9b.		x \$2,000		00
c. Number of individuals who qualify for one of the following special exemptions: deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled	9c.		x \$2,000		00
d. Number of children ages 18 and under you claimed as Michigan exemptions	9d.		x \$600		00
e. If your unemployment compensation is 50% or more of your Adjusted Gross Income (amount claimed on line 10) check the box and enter \$2,000	9e.	<input type="checkbox"/> (✓)	\$2,000		00
f. If someone else can claim you as a dependent, check the box, complete Worksheet 2 on p.10, and enter the amount from the worksheet	9f.	<input type="checkbox"/> (✓)			00
g. Add lines 9a, 9b, 9c, 9d, 9e, and 9f. Enter here and on line 15	9g.				00
10. Adjusted gross income from your U.S. 1040, 1040A, 1040EZ or 1040NR (see p. 10)	10.				00
11. Additions from MI-1040 Schedule 1, line 7	11.				00
12. Total. Add lines 10 and 11	12.				00
13. Subtractions from MI-1040 Schedule 1, line 20	13.				00
14. Income subject to tax. Subtract line 13 from line 12. If line 13 is greater than line 12, enter "0"	14.				00
15. Exemption allowance. Enter the amount from line 9g or Schedule NR, line 20	15.				00
16. Taxable income. Subtract line 15 from line 14. If line 15 is greater than line 14, enter "0"	16.				00
17. Tax. Multiply line 16 by 3.9% (.039). Enter here and carry amount to line 18	17.				00

**DIRECT DEPOSIT**Deposit your refund directly into
your bank account! See pg. 13
and complete a, b and c.a. Routing
Numberc. Account
Numberb. Account
Type:(1) ☐ Checking (2) ☐ Savings

Filer's Social Security Number
— —

18. Enter amount of tax from line 17	18.		00
NONREFUNDABLE CREDITS			
19. Income tax paid to Michigan cities (see p.10) ▶ 19a.		00	
20. Public contributions (see p. 10) ▶ 20a.		00	
21. Community foundations. Enter code from p. 44 ▶ <input type="text"/> ▶ 21a.		00	
22. Homeless Shelter/Food Bank cash contributions (see p. 11) ... ▶ 22a.		00	
23. Income tax paid to another state. Attach a copy of the return 23a.		00	▶ 23b.
24. Michigan Historic Preservation Tax Credit. Attach Form 3581.. ▶ 24a.		00	▶ 24b.
25. College Tuition and Fees Credit. Attach Schedule CT		00	▶ 25.
26. Vehicle Donation Credit. Enter code from p. 12 ▶ <input type="text"/> ▶ 26a.		00	26b.
27. Total nonrefundable credits. Add lines 19b, 20b, 21b, 22b, 23b, 24b, 25 and 26b	27.		00
28. Income tax. Subtract line 27 from line 18. If line 27 is greater than line 18, enter "0"	▶ 28.		00
29. Military Family Relief Fund. Enter your contribution amount (\$1 minimum) here	▶ 29.		00
30. Children's Trust Fund. Enter your contribution amount (\$5 minimum) here	▶ 30.		00
31. Use Tax. ▶ a. <input type="checkbox"/> No use tax due ▶ b. <input type="checkbox"/> Use tax due. Enter amount from Worksheet 1, line 3, p. 9 ▶ 31.			00
32. Add lines 28, 29, 30 and 31.....	32.		00
REFUNDABLE CREDITS AND PAYMENTS			
33. Property Tax Credit. Attach MI-1040CR or MI-1040CR-2	▶ 33.		00
34. Farmland Preservation Credit. Attach MI-1040CR-5	▶ 34.		00
35. Qualified Adoption Expenses. Attach U.S. 8839 and MI-8839.....	▶ 35.		00
36. Michigan tax withheld from Schedule W, line 3. Attach Schedule W	▶ 36.		00
37. Estimated tax, extension payments and 2004 credit forward.....	▶ 37.		00
38. Total refundable credits and payments. Add lines 33 through 37	38.		00
REFUND OR TAX DUE			
39. If line 38 is less than line 32, enter TAX DUE ▶ <input type="text"/> Office Use Only	PAY ▶ 39.		00
Include interest _____ and penalty _____ if applicable (see p. 13)			
40. If line 38 is greater than line 32, subtract line 32 from line 38. You overpaid this amount	40.		00
41. Amount of line 40 to be credited to your 2006 estimated tax..... ▶ 41.		00	
42. Subtract line 41 from line 40	REFUND ▶ 42.		00

Deceased Taxpayers. If Filer and/or Spouse died after December 31, 2004, check the appropriate box below.

▶ ☐ Filer is Deceased ▶ ☐ Spouse is Deceased

Taxpayer Certification. I declare under penalty of perjury that the information in this return and attachments is true and complete to the best of my knowledge.

Filer's Signature	Date
Spouse's Signature	Date
▶ I authorize Treasury to discuss my return with my preparer. <input type="checkbox"/> Yes <input type="checkbox"/> No	

Preparer Certification. I declare under penalty of perjury that this return is based on all information of which I have any knowledge.

▶ Preparer's PTIN, FEIN or SSN
<input type="text"/>
▶ Preparer's Business Name (print or type)
Preparer's Business Address (print or type)

Refund, Credit or zero returns. Mail your return to: **Michigan Department of Treasury, P.O. Box 30726, Lansing, MI 48909-8226**

Pay amount on line 39. Mail your check and return to: **Michigan Department of Treasury, P.O. Box 30727, Lansing, MI 48909-8227**

Make checks payable to "State of Michigan." Print your Social Security number and "2005 income tax" on the front of your check. Do not staple your check to the return. Keep a copy of your return and all supporting schedules for six years.

2005 MICHIGAN MI-1040 Schedule 1Type or print in blue or black ink. Print numbers like this: *0123456789* - NOT like this: *0147*

Attach to Form MI-1040.



Attachment Sequence No. 01

Filer's First Name	M.I.	Last Name	Filer's Social Security Number (Example: 123-45-6789) <div style="border: 1px solid black; width: 100px; height: 20px; margin: 5px auto;"></div>
If a Joint Return, Spouse's First Name	M.I.	Last Name	Spouse's Social Security Number (Example: 123-45-6789) <div style="border: 1px solid black; width: 100px; height: 20px; margin: 5px auto;"></div>

Additions to Income

1. Gross interest and dividends from obligations issued by states (other than Michigan) or their political subdivisions.....	1.	00
2. Deduction for taxes on, or measured by, income including self-employment tax taken on your federal return (see p. 14)	2.	00
3. Gains from Michigan column of MI-1040D and MI-4797	3.	00
4. Losses attributable to other states (see p. 14)	4.	00
5. Net loss from federal column of your Michigan MI-1040D or MI-4797	5.	00
6. Other (see p. 14). Describe:	6.	00
7. Total additions. Add lines 1 through 6. Enter here and on MI-1040, line 11	7.	00

Subtractions from Income

8. Income from U.S. government bonds and other U.S. obligations included in MI-1040, line 10. (Attach U.S. <i>Schedule B</i> or <i>1040A Schedule 1</i> if over \$5,000.)	8.	00
9. Military pay from U.S. Armed Forces included in MI-1040, line 10 (attach Schedule W). (Include retirement pay on line 12 of this schedule.)	9.	00
10. Gains from federal column of Michigan MI-1040D and MI-4797	10.	00
11. Income attributable to another state. Explain type and source:	11.	00
12. Retirement or pension benefits included in MI-1040, line 10. (Include military retirement here.) See exceptions, p. 15. Name of payer:	12.	00
13. Dividend/interest/capital gains deduction for senior citizens (see p. 15)	13.	00
14. Social Security benefits from U.S. <i>1040</i> , line 20b or U.S. <i>1040A</i> , line XX	14.	00
15. Income earned while a resident of a renaissance zone. Name of zone:	15.	00
16. Michigan state and local income tax refunds received in 2005 and included in MI-1040, line 10	16.	00
17. Michigan Education Savings Program 	17.	00
18.  Michigan Education Trust	18.	00
19. Miscellaneous subtractions (see p. 16). Describe:	19.	00
20. Total subtractions. Add lines 8 through 19. Enter here and on MI-1040, line 13	20.	00

INSTRUCTIONS: If you had Michigan income tax withheld in 2005, you must complete a *Withholding Tax Schedule* (Schedule W) to claim the withholding on your *Individual Income Tax Return* (MI-1040, line 36). Attach your completed Schedule W to your MI-1040 form. See complete instructions on the reverse side of this form. Type or print in blue or black ink.

Print numbers like this: 0123456789 - NOT like this: 0147

Attachment Sequence No. 13

Filer's First Name	M.I.	Last Name	<div> <div> Filer's Social Security Number (Example: 123-45-6789) </div> <div> <div> </div> <div> </div> </div> </div>
If a Joint Return, Spouse's First Name	M.I.	Last Name	<div> <div> Spouse's Social Security Number (Example: 123-45-6789) </div> <div> <div> </div> <div> </div> </div> </div>

TABLE 1: MICHIGAN TAX WITHHELD ON W-2 or W-2G FORMS

▶ A. Enter "X" if for: <u>You</u> or <u>Spouse</u>		▶ B. Box b - Employer's federal identification number	C. Employer's name	D. Box 1 - Wages, tips, other compensation		▶ E. Box 17 - Michigan income tax withheld		F. Box 19 - City income tax withheld	
					00		00		00
					00		00		00
					00		00		00
					00		00		00
					00		00		00
					00		00		00
					00		00		00
					00		00		00
					00		00		00
Enter total from additional Schedule Ws (if applicable)							00		00
1. SUBTOTAL. Enter total of Table 1, columns E and F. Carry total of column F to the City Income Tax Worksheet in the MI-1040 Instruction Book						1	00		00

IMPORTANT: If you have no entries for Table 2, carry total of line 1, column E, to line 3 below.

TABLE 2: MICHIGAN TAX WITHHELD ON 1099, 1099R, 1099G and MI-NR-K1 FORMS

▶ A. Enter "X" if for: <u>You</u> or <u>Spouse</u>		▶ B. Employer's federal identification number	C. Employer's name	D. Taxable pension distribution, misc. income, etc. (see instr.)		▶ E. Michigan income tax withheld		F. Box 7 - Distribution Code (1099R only)
					00		00	
					00		00	
					00		00	
					00		00	
					00		00	
					00		00	
Enter total from additional Schedule Ws (if applicable)							00	
2. SUBTOTAL. Enter total of Table 2, column E						2.	00	
3. TOTAL. Add line 1 and line 2, column E. Carry total to your MI-1040, line 36						▶ 3	00	

STATE TEST

The following pages are a test that may be used by coordinators and instructors to give their volunteers extra training and (or) evaluate their volunteer's readiness to prepare Michigan Tax Returns.

Note: The Michigan Department of Treasury, at this point, does not require that a volunteer pass this test prior to preparing tax returns. For answers to this test, coordinators or instructors may contact Bob Kelava at 1-888-860-8389 or (313) 456-4274.

HOUSEHOLD INCOME EXERCISE

Which of the following must be included in Household Income? (Y (yes) or N (no)).

- | | |
|---|-------|
| A. Gambling winnings | _____ |
| B. Proceeds received from a second mortgage | _____ |
| C. Social Security received for a minor child | _____ |
| D. Gain on the sale of a residence | _____ |
| E. Original contributions shown on a 1099R | _____ |
| F. Lottery winnings | _____ |
| G. Chore services received | _____ |
| H. Food stamps | _____ |
| I. Alimony received | _____ |
| J. Child support received | _____ |
| K. Winnings from a state regulated bingo game | _____ |
| L. FIP paid to grandparents for care of grandchildren | _____ |
| M. Living expenses paid by another person | _____ |
| N. Unemployment compensation | _____ |
| O. Scholarships | _____ |
| P. Public assistance | _____ |
| Q. Social security received for a dependent child | _____ |
| R. Life insurance proceeds from death of a spouse | _____ |
| S. Tax exempt Michigan municipal bond interest | _____ |
| T. Gross income of mother-in-law who lives rent free in taxpayer's home | _____ |
| U. Homestead property tax refund received | _____ |
| V. Savings account withdrawals | _____ |
| W. Assistance received from daughter to pay rent or mortgage | _____ |

Which of the following may be deducted from Household Income? (Y or N)

- | | |
|---|-------|
| A. Gambling Losses | _____ |
| B. Medical Insurance Premiums paid by the taxpayer | _____ |
| C. A net capital loss from U.S. 1040 D (\$3,000 or less) | _____ |
| D. IRA contributions allowed as a deduction on the U.S. 1040 | _____ |
| E. Alimony paid | _____ |
| F. Child support paid | _____ |
| G. Charitable contributions | _____ |
| H. Educator expenses | _____ |
| I. A net loss on the sale of a personal residence (\$3,000 or less) | _____ |

MULTIPLE CHOICE

(Choose the correct answer from the selections below, using the corresponding letter.)

1. The maximum homestead property tax yearly refund is: _____
A. \$600 B. \$2,000 C. \$1,200 D. 1,000
2. Until April 15, 2006, which is the oldest year property tax return a taxpayer may still file for a refund? _____
A. 1929 B. 2001 C. 2002 D. 2003
3. How long during the year must a taxpayer be a resident of Michigan in order to claim a homestead credit? _____
A. Full year B. 6 months C. 6 weeks D. There is no requirement
4. Which of the following may not be claimed on the MI-1040CR? _____
A. County taxes
B. Collection fees up to 5 mills
C. Special assessments
5. How much is the homestead refund for a Senior Citizen who has household income of \$10,000 and pays rent of \$4,800? (Assume the property is taxable and the rent does not include meals or other services.) _____
A. \$420 B. \$610 C. \$800 D. \$1,200
6. A single taxpayer who lives in a nursing home and still owns a vacant family home may claim which of the following on his/her MI-1040CR? _____
A. Nursing home taxes only
B. Family home taxes only
C. Both the taxes on the nursing home and the family home
D. The larger of the taxes on the nursing home or the family home
7. If a taxpayer moves exactly half way through the year and is billed \$500 for summer taxes on the home sold and \$1,000 in winter taxes on the home purchased, how much of the property taxes may the taxpayer claim for credit? (Assume the winter taxes on the home sold were \$1,500 and the summer taxes on the home purchased were \$400.) _____
A. \$1,700 B. \$1,500 C. \$1,000 D. \$1,200

8. Which of the following is not included in household income? _____
- A. Social security
 - B. Unemployment
 - C. Food stamps
 - D. Disability income
9. In 2005, Linda League filed a federal return as a single individual. Included in her AGI was \$25,000 received from the State of Michigan retirement plan and \$20,000 received from a GM retirement plan. What is Linda's total allowable pension subtraction? _____
- A. \$25,000 B. \$20,000 C. \$39,570 D. 45,000
10. Which of the following may not be subtracted on the MI-1040? _____
- A. U.S. Treasury Bond interest
 - B. Federal Income Tax refunds included in AGI
 - C. Military pay
 - D. Church contributions
11. Jim Dykes, a single individual age 75, received a pension of \$7,200 from the city of Grand Rapids during the year and also interest income of \$2,800. What is his Senior Citizen Interest, Dividend, and Capital Gain subtraction? _____
- A. \$7,200 B. \$8,828 C. \$10,000 D. \$2,800

TEST PROBLEM

Jon and Andrew Adams are brothers who live together in the house they inherited from their father at 31506 Greenway, Swartz Creek, Michigan 48345. Jon's social security number is 202-22-2222 and Andrew's is 303-33-3333. Jon's age is 80 and Andrew's age is 82, and they have no handicaps other than being a little ornery. Their incomes are as follows:

	<u>Jon</u>	<u>Andrew</u>
Social Security	\$4,200	\$6,800
Pension		
Ford Motor	2,500	
IRA		4,600
Interest & dividends	50	1,500

The property taxes on their house is \$2,400 and the taxable value is \$60,000. They heat with gas and were billed \$1,660 for the year ending 10/31/05. The heat is in Andrew's name.

Prepare the necessary Michigan tax forms for the two brothers.

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